

# Annual Report 2004

BALLINGSLÖV INTERNATIONAL ANNUAL REPORT 2004

**Ballingslöv<sup>®</sup>**

# Shareholders' Meeting

## **ANNUAL GENERAL MEETING**

The Annual General Meeting will be held on Thursday 14 April at 17:00 at Ballingslöv AB's premises in Ballingslöv.

The meeting will be preceded by an opportunity for a factory tour/product presentation at 15:30.

## **REGISTRATION AND NOTIFICATION**

Shareholders who wish to participate at the AGM must

- be entered in the register of shareholders kept by VPC AB no later than Monday 4 April 2005.
- notify the company of their participation at the following address:

Ballingslöv International AB (publ),  
FAO: Ingela Ekman, 281 87 Ballingslöv, Sweden or by phone on +46 (0)451-46117, by fax on +46 (0)451-46283, or by e-mail to [ingela.ekman@ballingslov.se](mailto:ingela.ekman@ballingslov.se), no later than Tuesday 12 April at 16:00. Notification by phone is possible on weekdays between 09:00 and 16:00. The notification must include the name, personal ID number/corporate identity number and daytime phone number.

Shareholders who wish to be represented by a proxy should submit their proxy authorisation with the notification. Anyone representing a legal person must produce a copy of the proof of registration or equivalent documentation of authority that specifies an authorised company signatory.

Shareholders who have had their shares registered in the name of administrators must temporarily have the shares registered in their own name at VPC AB if they are to be entitled to participate at the AGM. Such re-registration must have been completed no later than 4 April 2005, and the administrator should have been informed of this in good time before the date specified.

## **DIVIDEND**

The board proposes that the dividend for the financial year 2004 be set at SEK 3.25 per share. It is proposed that 19 April 2005 be the reconciliation date for the right to receive a dividend. If the AGM adopts this proposal, it is expected that the dividend will be issued through the VPC's offices on Friday 22 April 2005.





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The Ballingslöv Group is one of the leading manufacturers of fitted kitchens in Scandinavia and the UK. In Scandinavia the Group also markets fitted bathrooms and storage units. The products are sold in each market under a number of strong, well-known brand names: Ballingslöv<sup>®</sup>, SweNovaKök, Drømmekjøkkenet, JKE Design, dfi, Multiform and Paula Rosa, and from 2005 Svane Køkkenet as well.

The Ballingslöv Group includes five wholly owned subsidiaries, and manufacturing takes place in Sweden, Denmark and the UK.

The Group comprises 15 operational companies in all.

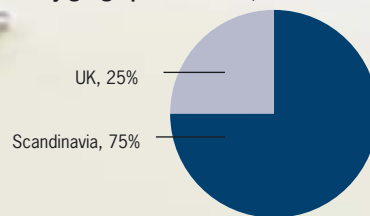
## 2004 IN BRIEF

- Net sales in 2004 totalled MSEK 1,298.3 (1,204.5), in increase of 8 per cent.
- Operating income before goodwill amortisation (EBITA) increased to MSEK 153.5 (140.0).

- The EBITA margin increased to 11.8 per cent (11.6).
- Operating income (EBIT) increased to MSEK 126.7 (118.1).
- Net income increased by around 18 per cent to MSEK 76.3 (64.5).

# The year in brief

Net sales by geographical market, %



Net sales and operating margin before goodwill amortisation



## IMPORTANT EVENTS IN 2004

- At the end of the first quarter in 2004 an agreement was reached to acquire the brand name, franchise concept and all other rights in the Danish retail chain Svane Køkkenet. The Group's deliveries to the retail chain, starting gradually during the second quarter 2005, are expected to total around MSEK 250 on an annual basis.
- Significant investments were made at the Group's Swedish factory in Ballingslöv during the year, including extensions covering around 7,500 m<sup>2</sup>, which will, among other things, help satisfy Svane Køkkenet's production requirements.

- Earnings per share increased by around 18 per cent to 7.11 (6.01).
- Cashflow from current operations improved to MSEK 142.8 (128.0).

- Currency effects had a negative effect on operating income to the order of around MSEK 7.
- Costs of the improvement programme in the UK business totalled around MSEK 4, and the startup costs for the Svane project totalled around MSEK 3.

- In Denmark an assembly factory was built for the Svane business covering around 3,500 m<sup>2</sup>.
- Continued healthy growth in the Scandinavian markets.
- The improvement programme in the UK that started during the second quarter with the aim of reducing costs and increasing the focus on the Group's main customer category, building companies for private residential homes, produced a significant improvement in net income.

<b>The Group</b>	<b>2004</b>	<b>2003</b>
Net sales, MSEK	<b>1,298.3</b>	1,204.5
Operating income before goodwill amortisation, MSEK (EBITA)	<b>153.5</b>	140.0
Operating margin before goodwill amortisation, %	<b>11.8</b>	11.6
Operating income, MSEK (EBIT)	<b>126.7</b>	118.1
Operating margin, %	<b>9.8</b>	9.8
Net income before taxes, MSEK	<b>115.1</b>	99.6
Net income after taxes, MSEK	<b>76.3</b>	64.5
Net income for the year per share, SEK	<b>7.11</b>	6.01
Net income for the year per share excluding goodwill, SEK	<b>9.12</b>	8.05
Return on capital employed, %	<b>16.2</b>	15.3
Return on equity, %	<b>16.8</b>	14.2
Debt/equity ratio, multiple	<b>0.7</b>	0.7
Equity/assets ratio, %	<b>44.9</b>	46.1

# The CEO's comments



## WELL POSITIONED TO FACE THE FUTURE

In 2004 the Ballingslöv Group reinforced its position in a sector characterised by tremendous dynamism, with demands for quick product launches and increasingly tough competition. This is emphasised by Nils-Erik Danielsson, CEO and President, in this interview. He picks out the acquisition of the distribution channel Svane Køkkenet in Denmark as the single most important event during 2004.

### **Fitted kitchens and bathrooms: what makes this sector so special?**

“The widespread interest in home furnishing and design is creating an increase in the demand for new kitchens and bathrooms. Consumers are being influenced by TV programmes and interior design magazines and know what the latest trends are. For us as a supplier to be able to meet their expectations and desires, we need a highly-developed awareness of the world around

us and an organisation that is quick in thought and action. Which I believe we have. The Group has reinforced its position in a sector that is more dynamic than ever.”

### **The Ballingslöv Group has businesses in Scandinavia and the UK. How do you view the sales trends during the year and expectations for 2005?**

“In Scandinavia we’ve kept pace with the market on the whole, which has meant healthy growth. We’ve also made progress in the UK, if only very slight. It’s difficult to say anything definitive about 2005, as there are too many external factors that can have an impact. For example interest rates, property prices, disposable income and faith in the future. There’s no doubt that consumer interest in kitchens and bathrooms continues to be strong, which is why there is reason to believe in a stable market, even with a certain level of growth.”

### **Regarding the UK and the subsidiary Kingfisher Wood Products Ltd. A lot has been happening there.**

“Yes, at the beginning of the year we appointed a new MD and initiated an improvement programme to focus our sales, increase efficiency and reduce costs. Staff cutbacks and cost reductions have been undertaken, and we’ve wound up retail sales, which were less profitable. In contrast to our other markets, in the UK it’s the building companies that are our really dominant customer group, and this is where we must have our focus. The improvement programme has gone largely as planned, the business is now performing much better and is more stable, even if we still have some work to do to reach the Group average as far as generating a surplus is concerned.”

### **In spring 2004 you signed an agreement to acquire Svane Køkkenet, including the brand names, franchise concepts and all other rights. Why was this acquisition strategically important?**

“This acquisition gives us a new distribution channel in the Danish market, and provides the Ballingslöv Group with an annual delivery value of MSEK 250 starting in April 2005. For the Group, this represents an increase in net sales of around 20 per cent. Svane Køkkenet consists of 26 kitchen outlets, which have annual retail sales of around MSEK 550. The brand is one of the two or three best known in the Danish kitchen market. Following the acquisition the retailers, which were independent, will be organised as franchise outlets and will thus be able to act in an even more clearly-profiled, uniform way. This is expected to further reinforce the market position. Our Swedish factory in Ballingslöv will be manufacturing

all of Svane K kkenet’s requirements for kitchen and bathroom cabinets. This will make the factory in Ballingsl v one of the very biggest in the Nordic region, with annual net sales of around MSEK 800. In connection with the Svane project a number of investments are being made in the factory in terms of premises, machinery, staff and system development. This will increase the factory’s efficiency and considerably strengthen our competitive position, which will also benefit the products manufactured and marketed under the Ballingsl v brand name. Investments in the factory during 2004–2005 total more than MSEK 100.”

**The strength of the Group’s brands is central to its development, as is the way in which you run your purchasing, product development, manufacturing and distribution. Explain the strategy.**

“We work methodically so that within the Group we can increase co-ordination, primarily within purchasing, manufacturing, IT and product development. Even though I’m relatively satisfied with developments so far, there is still more to be done. Our brands are promoted and developed through promotion, TV advertising and other forms of publicity. Product development is not just about satisfying consumer preferences, it’s just as important that we can move quickly from concept to market launch. It usually involves producing more new ranges of kitchens every year. As far as manufacturing is concerned, our strategy is essentially to concentrate the production of certain main components in selected factories in the Group, while other factories are more assembly-oriented. Nor do we exclude the possibility in due course of outsourcing the production of certain components to low-cost countries. As regards distribution, we do not want to own shops, but to collaborate with independent traders or franchisees, ideally through retaining our brand exclusivity. The trend is moving towards larger retail units. We must have a presence through large outlets in all major locations. In Sweden, for example, this means 30 or so towns and cities where large stores must be set up.”

**The Ballingsl v Group’s vision is to become one of the leading kitchen manufacturers in Europe. This requires net sales of more than three billion Swedish kronor. How will you achieve this?**

“Our strategy is to grow organically and through acquisitions, in the short term in Scandinavia and the UK, where we already have good experience of acquisitions and how to integrate them. In the longer term other countries may be considered. The kitchen market in Europe is extremely

“*The sector is more dynamic than ever.*”

fragmented, and the biggest manufacturer only has 7–8 per cent of the total market. There are quite a lot of potential acquisitions. The starting point in acquisitions is to find kitchen brands that complement, rather than overlap, our existing brands and businesses. Examples of this might be a complement, in which we establish ourselves in a new price segment or one that can be justified from a geographic or distribution perspective.”

**What are the opportunities and threats that you see with regard to the Group’s development?**

“The opportunities include the potential in Svane K kkenet and work to further develop the Group’s distribution in all major locations. In some of them we should probably have more than one business partner. Better utilisation of synergies within the Group is another opportunity. Threats? Higher interest rates and the market going into decline. Of course we must also be able to deal with the increased level of competition, including that from low-price players.”

**In Sweden you’re making changes in terms of product transport operations. Comments?**

“At the beginning of 2005 a decision was taken to change the logistical concept for Ballingsl v AB’s deliveries in the Swedish market. Instead of using independent haulage firms for transport operations, we’ve decided to buy 15 trucks and employ around 20 drivers. This enables us to improve both safety and the quality of transport operations, which will definitely be appreciated by our distributors and end users. This change comes into force in August 2005.”

**Finally: in 2004 Ballingsl v AB celebrated its 75th anniversary as a company. Comments?**

“It shows that we’re a strong company with a good business model. The so-called Ballingsl v spirit among Ballingsl v AB’s employees can also be seen in other companies within the Group. It’s all about entrepreneurial spirit, motivation and the desire to achieve new objectives,” concludes Nils-Erik Danielsson.

# The Group in brief

## THE COMPANY

The Ballingslöv Group is one of the leading manufacturers of fitted kitchens in Scandinavia and the UK. In Scandinavia the Group also markets fittings for bathrooms and storage. The products are sold in each market under a number of strong, well-known brand names: Ballingslöv, SweNovaKök, Drømmekjøkkenet, JKE Design, dfi, Multiform and Paula Rosa. As from 2005 Svane Køkkenet also joins the Group's brand names.

The Group includes five wholly owned subsidiaries, and manufacturing takes place in Sweden, Denmark and the UK. In total there are 15 operational companies in the Group.

## BUSINESS CONCEPT

The Ballingslöv Group's business concept is to develop, manufacture and market, through a comprehensive distribution network, a flexible range of fitted kitchens, bathrooms and storage units, characterised by well-known brands, carefully planned design and high quality.

## VISION

The Ballingslöv Group shall, through profitable growth, become a leading kitchen manufacturer in Europe. Both organic growth and company acquisitions are required to realise this vision.

## CORE VALUES

The values and the culture within the Ballingslöv Group are based on a few core values. These constitute the basic guidelines for the organisation and sum up the professionalism that the Group wishes to communicate to customers.

### A focus on objectives

Employees must work towards clearly defined objectives. The company's success is based on committed employees with a sense of responsibility.

### Drive

The company environment must stimulate employees to act methodically and with drive. Decisions made must be implemented quickly and efficiently.

### Willingness to change

A willingness to change is necessary to deal with future challenges and to reinforce the Group's market position. Employees must therefore act independently within agreed frameworks and towards defined objectives.



## STRATEGY

The Ballingslöv Group works according to the following strategic guidelines:

- Continuously develop the Group's brands.
- Distribute the products through comprehensive, independent distribution networks with competent sales staff and a high level of service to the end customer. The network must in the first instance be exclusive for the Group's products.
- Offer a flexible product range with high quality and carefully planned design.
- Improve the Group's efficiency by means of increased co-ordination, integration and benchmarking within such areas as purchasing, product development, production, distribution and IT.
- Strengthen the competitive position through systematic, continuous skills development, both externally and internally.
- Acquisitions must in the first instance have a geographic focus on the Nordic region and the UK, and must complement the current Group structure in terms of such issues as product range and distribution channels.

## THE MARKET

The European market for fitted kitchens is currently valued at around SEK 100 billion\*. The market in Scandinavia is estimated at around SEK 6–7 billion and in the UK at between SEK 14 and 15 billion. The total market for fitted bathrooms in Scandinavia is estimated at around SEK 1 billion. The Ballingslöv Group operates mainly in Sweden, Denmark, Norway and the UK. Most of the Group's net sales originate from the Swedish and UK markets. The market for fitted kitchens and bathrooms is usually divided into new construction and refurbishment (renovation, rebuilding, extensions). The refurbishment segment, which tends to be less sensitive to economic fluctuations than the new construction segment, constitutes 70–80 per cent of the total market in most European countries.

\* All market values are expressed as production values.

## CUSTOMERS

Buyers of the Ballingslöv Group's products in the Scandinavian market are mainly private consumers, whom the Group reaches via independent

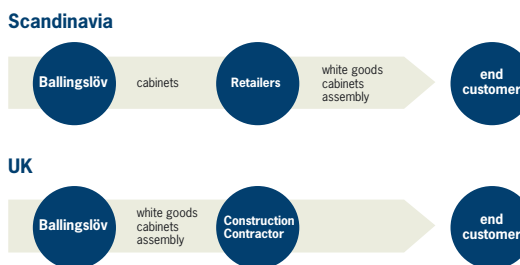
distributors, who in turn deal with the end customers.

Customers in the UK are mainly building companies, which build or renovate properties for private customers. In the UK the Ballingslöv Group has its own, well-developed sales and service network for the sale of kitchen cabinets, white goods and installation.

## PRODUCTS

The Ballingslöv Group's main product range comprises high-quality, complete fitted kitchens and worktops. The Group also markets fitted bathrooms in the Scandinavian markets. The product range is characterised by carefully planned design, a flexible product range and high quality.

## MAIN PROCESSES



The Group's delivery chain is differently structured on the Scandinavian and the UK markets. In Scandinavia the Group supplies fitted kitchens to retailers, and these are sold primarily to the renovation market. In the UK the delivery process involves complete deliveries of kitchens including white goods and installations for the new construction segment.

## GROUP OVERVIEW

The Group's net sales MSEK 1,298  
Average number of employees 900

Ballingslöv International AB					
BALLINGSLÖV AB	JKE DESIGN A/S	dff A/S	MULTIFORM A/S	KINGSHSHER WOOD PRODUCTS LTD	SHOPS
555	219	164	64	319	31
374	109	123	45	223	26

Net sales, MSEK\*  
Average number of employees

\* Internal sales not eliminated.

## THE SHARE

The Ballingslöv Group's share was launched on the Stockholm Stock Exchange's O-list in June 2002. At the end of 2002 the total number of shares was 10,725,758. On 31 December 2004 the Group's market capitalisation was MSEK 1,051. During 2004 the Ballingslöv share rose by 24.8 per cent.

# Product development and design



## STRONG HOME FURNISHING TREND CONTINUES

People's growing interest in home furnishing and design, which is often nourished by magazines and TV programmes, are driving forces that benefit the Ballingslöv Group's growth. The kitchen is now the focal point in many homes and satisfies a need in people to achieve a sense of tasteful, personal expression. This trend, which has been prevalent for a number of years, continues to be strong and increasingly also includes the bathroom.

In order that it is able to offer a product range that satisfies consumers' preferences and demands, the Ballingslöv Group operates an intensive programme of product and design development. This takes place partly within the various companies in the Group, and partly through a sharing of experience and collaboration between the companies. The Group's various product brands each have their own profile, which it is important to safeguard.

### Well-balanced selection

When creating and designing kitchens and bathrooms it is important to satisfy consumers' preferences in terms of function, form and colour. There are also many opportunities to create accents and accessories that inspire consumers to make a purchase. Characteristic features of the time are highlighted in the choice of accessories such as worktops, support frames, lighting, handles, knobs, mouldings, etc. Whether a kitchen is to exude an austere aesthetic or rural nostalgia, the feeling must be imparted in full, right down the smallest detail. The Ballingslöv Group is now stepping up the pace of its collaboration with several suppliers of accessories, to enable it to offer a range of products with increased stylistic consistency for both kitchens and bathrooms.

### New influences and our own expressions

In order to capture new expressions, the Ballingslöv Group continuously monitors the outside world, participates in trend seminars, collaborates with architects/designers of the future at institutions including the Aarhus School of Architecture, Denmark, and invites dissertations from students at various design colleges. The European market for kitchens and bathrooms is largely influenced by Italian design. Influences that are adapted to the various product brands within Ballingslöv. Our vision is that the Group will in due course achieve greater status as an interpreter of Scandi-

navian design and be able to contribute towards international trends.

#### **The kitchen – the focal point of the home**

Once it was simply a small room for food preparation, but the kitchen has grown in terms of both importance and style in the home. In new homes it is increasingly common for the kitchen to be integrated into the living room or other spaces in the home. This trend is supported by the tremendous interest in cooking in recent times and the perception of a meal as an experience. The kitchen also has a central role in everyday life, in single households and family homes, when food is occasionally produced from the microwave. By means of various modular systems, kitchens can be created with considerable flexibility.

The kitchen is a natural meeting place and represents security in a changing world. Another important consideration is that fact that people nowadays are always short of time. The various companies in the Group design kitchens that are rational to work in. Even in a smaller kitchen, the consumer still wants room for advanced mechanical equipment. The Group's companies also try as far as possible to satisfy desires for individual solutions. Alongside quality, choice is therefore also a key consideration.

The popular colours of fittings for the future are restrained tones of white and natural shades. Another current trend is for hints of dark colours such as walnut, teak and wengé. There is also a very wide range of different worktops. Materials in demand are steel, granite, concrete and

*The kitchen is a natural meeting place and represents security in a changing world.*

even glass. While the life span of a kitchen used to be considered to be 15–20 years, the consumer is now being influenced to make changes more often. The challenge is to create a design that feels contemporary and maintains a high quality. This is also true of fitted bathrooms.

#### **Increased interest in the bathroom**

In just the same way as a new kitchen generates a sense of well-being through a high degree of functionality and good design, the bathroom is the focus of increased consumer interest. The stressed modern person views the bathroom as a place for peace and restoration together with others in the family. The trend is shifting towards better utilisation of bathroom areas. In future the bathroom may become an integral part of the bedroom. In its production of bathrooms, the Ballingslöv Group takes great care to choose accessories that achieve a sharpness in its design. One material that is becoming popular is glass. In bathrooms too, there is a high demand for individual solutions.



# The market

## STRONG POSITION IN SEVERAL COUNTRIES

The Ballingslöv Group has a strong position in its main markets, Sweden, Denmark and Norway, and also within its prioritised segment in the UK. In the Scandinavian countries the Group's fitted kitchens and bathrooms are sold mainly to consumers via retailers. Both kitchens and bathrooms are supplied assembled in modules, as opposed to low-cost products in "flat-packs".

Customers in the UK comprise mainly private building companies, who are offered a full service concept comprising cabinets, white goods and installation services.

The Group also manufactures and sells work-tops.

In terms of sales, Sweden is the biggest market, accounting for 38 per cent of the Group's total net sales in 2004, followed by the UK with 25 per cent, Denmark with 23 per cent, Norway with 13 per cent and other markets with 1 per cent. The Group's sales trend continued to be stable during the year.

### Big must become bigger

Of the ten biggest kitchen producers in Europe, the majority are based in Germany and two in Sweden, one of which is the Ballingslöv Group. It

is the Group's objective in due course to be one of the very biggest in Europe. One important step in this direction was taken in 2004, with the acquisition of the Danish retail chain Svane Køkkenet, which is expected to increase the value of the Group's deliveries by around MSEK 250 per annum. The Group has a stated strategy of creating further growth, both organically and through acquisitions.

### Driving forces in developments

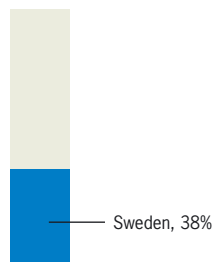
The demand for fitted kitchens and bathrooms is driven by the pace of new construction and by the refurbishment segment, which is influenced by such factors as a low interest rate, strong household finances and an increased interest in furnishing and design, with the emphasis on individual solutions. The kitchen often plays a central role when new homes are designed and planned. The bathroom is also furnished in a way that gives greater opportunities for recreation. People nowadays renew their kitchen or bathroom because they want to, not always because they have to.

### Interaction with the consumer

The consumer encounters products from the Ballingslöv Group in many sales environments. Whether the encounter takes place in a kitchen retailer with brand exclusivity or in a builders' merchants, the consumer must always perceive a product that engenders trust. Even in builders' merchants, demands are made that the display must do justice to the brand. The Group itself trains sales staff in such subjects as CAD of kitchens and creative kitchen planning, so that sales staff are able to create and visualise attractive, individually adapted kitchens and bathrooms in photo-quality drawings. This is a competitive tool that has become increasingly important in the interface between seller and consumer.

## MARKET GROWTH IN SWEDEN

Proportion of the Group's net sales, %



In 2004 a total of approx. 130,000 kitchens were sold, representing growth of 7–8 per cent. This is the result of low interest rates, high increases in the value of houses and apartments, and strong household finances in general.

The kitchen market is expected to grow in 2005, if at a slightly lower rate than in 2004. The sales trend is expected to continue in both the new construction and refurbishment segments. The bathroom market is also expected to grow.

In total it is estimated that the Swedish kitchen market will have net sales of around SEK 2.7 billion in terms of production value. The corresponding figure for fitted bathrooms is estimated at around MSEK 450. The market comprises around 80 per cent refurbishment (repairs, rebuilding and extensions) and around 20 per cent new construction.

### Change in the sales chain

There are two tangible trends in the sale of kitchens and bathrooms: independent shops are joining larger chains, and the proportion of kitchen specialists with brand exclusivity is on the increase. In this respect Sweden is reflecting the trend in other countries.

In Sweden builders' merchants are the most important distribution channel for kitchens and bathrooms, and continue to be the most important sales channel for Ballingslöv AB. About 75 per cent of the company's sales are made through this channel. The aim is to achieve increased volumes via specialist kitchen retailers.

### Three major kitchen suppliers

The Ballingslöv Group, IKEA and Marbodol (owned by Nobia) account for around 70 per cent of the Swedish kitchen market. There is increased competition from low-price suppliers such as

*It is the Group's objective in due course to be one of the biggest in Europe.*

Kvik, Noblessa and Sentens. Ballingslöv's market share is estimated at 16–18 per cent.

The Group had net sales of MSEK 491 in the Swedish market in 2004.

Svedbergs is the biggest player in the field of fitted bathrooms. Ballingslöv's market share is around 9 per cent.

## STRONG BRANDS DOMINATE IN DENMARK

In 2004 the Danish kitchen market grew by 6–7 per cent. About 125,000 kitchens were sold in total. The driving forces in Denmark too are low interest rates and attractive lending terms, growth in the economy and an increase in the value of houses and apartments.

In Denmark the kitchen has a great emotional value, and is something that people are happy to show off to their guests. In the last five years about one in four Danish households has invested in a new kitchen. Often in well-known brands. The expectation is that the Danish kitchen market in 2005 will continue to grow, possibly at a slightly slower rate than in 2004.

In total it is estimated that the Danish kitchen market will have net sales of around SEK 2.3 billion in terms of production value. The corresponding figure for the bathroom market is around MSEK 300. Many of the kitchen manufacturers also manufacture bathrooms.

The refurbishment segment accounts for around 85 per cent of the kitchen and bathroom market in Denmark.

### Specialist kitchen retailers the leading sales channel

Compared to the other markets in Scandinavia, the brand of a kitchen is even more important to the consumer in Denmark. The country's specialist kitchen retailers are therefore the dominant sales channel, accounting for 70 per cent of the total volume. Many retailers only market one single brand. 15 per cent of kitchen sales are generated

via builders' merchants and 10 per cent via furniture stores. The Ballingslöv Group's leading brands in terms of sales in Denmark, JKE Design and as from 2005 Svane Køkkenet, are marketed via retailers specialising in kitchens.

Many manufacturers are in the low-price segment ("flat-pack"), and during the year more new sales outlets appeared in this segment, which is growing healthily. This trend is expected to continue in 2005.

### Five main kitchen manufacturers

Five players share around 60 per cent of the Danish kitchen market. These include the Ballingslöv Group with its brands JKE Design, Multiform and dfi, and from 2005 Svane Køkkenet. Other major players are HTH, Kvik, Invita and Tvis.

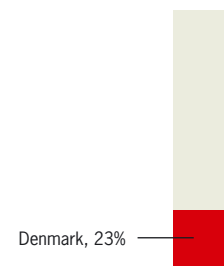
The Ballingslöv Group is the third biggest producer, with a market share of around 12 per cent. In total the Group in Denmark had net sales of MSEK 303 during the year.

In 2004 the market saw some consolidation in the form of mergers between Tvis and Modulia, Biga and Nettoline, and Svane and Ballingslöv International.

The kitchen market can also be divided into the following product segments: premium 9 per cent, intermediate 46 per cent and low-price 45 per cent. It is considered that the low-price segment made most progress in 2004.

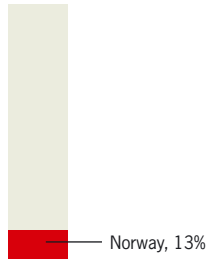
Dansani is the leading player in the bathroom market.

Proportion of the Group's net sales, %



## STRONG GROWTH IN NORWAY

Proportion of the Group's net sales, %



It is estimated that the kitchen market grew in Norway by 7–8 per cent in 2004. During the year the Ballingslöv Group increased its sales by around 20 per cent. All of the Group's Scandinavian brands are marketed in the Norwegian market, with the exception of SweNovaKök.

In total around 80,000 kitchens were sold in Norway in 2004. The market is expected to achieve some growth in 2005.

In total it is expected that the Norwegian market for fitted kitchens will have net sales of around SEK 1.9 billion in terms of production value. The corresponding figure for the bathroom market is around MSEK 300. The refurbishment segment accounts for around 70 per cent of the kitchen and bathroom market.

The Norwegian and Swedish markets have long had many similarities in terms of kitchen design. Both have been less minimalist than Denmark. However, Norwegian consumer preferences are now to some extent moving closer to those in Denmark. The Ballingslöv Group's product range is ideally suited to the Norwegian market, as is confirmed by the sales trend.

### Focus on specialist kitchen retailers

Around 60 per cent of all fitted kitchens in Norway are sold via specialist kitchen retailers. Other

important sales channels are furniture chains (25 per cent) and builders' merchants (15 per cent). The trend is that consumers prefer shopping in kitchen specialists. 75 per cent of the Ballingslöv Group's sales are generated via these kitchen specialists. This distribution channel will become even stronger in 2005.

Changes are expected in the competition structure in 2005 with the introduction of kitchens in a national furniture chain (Skeidar), which competes mainly with IKEA. It is also expected that a foreign distribution channel will start to become established in 2005.

### Five kitchen suppliers dominate

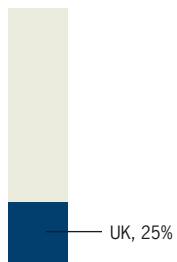
The five biggest kitchen suppliers in Norway have more than 70 per cent of the market. These are Norema, Sigdal, HTH, Ballingslöv and IKEA. It is estimated that Ballingslöv's market share is around 9 per cent. The leading manufacturers all sell via shops with brand exclusivity. The year was also characterised by increased competition from Danish manufacturers such as Biga, Kvik and Designa.

The Ballingslöv Group had net sales of MSEK 175 in the Norwegian market in 2004.

Foss is the biggest player in the field of fitted bathrooms.

## IN THE TOP THREE IN THE UK IN PRIMARY SEGMENT

Proportion of the Group's net sales, %



The Ballingslöv Group's business in the UK is different from the one in Scandinavia. The Group's UK brand, Paula Rosa, is aimed primarily at medium-sized, private construction companies, to which the Group sells subcontracting orders for kitchen installations. As well as kitchens, Paula Rosa also supplies white goods and assumes responsibility for installation. This segment accounts for around 20 per cent of the total kitchen market. Paula Rosa is one of the three biggest brands in this segment, with a market share of 11 per cent.

During the year the UK kitchen market recorded growth of two per cent. In total around 760,000 kitchens were sold, 160,000 of which

were in the private new construction segment. Growth in 2005 is expected to be on a par with 2004. The refurbishment segment accounts for around 80 per cent of the UK kitchen market, new construction around 20 per cent.

### Stable market

The five biggest kitchen suppliers in the construction segment have almost 70 per cent of the market. Moores and Symphony are the players that are bigger than Paula Rosa. Sales to the construction sector have been relatively stable for several years. In 2004 the Ballingslöv Group had net sales in the UK of MSEK 319 through Paula Rosa.

The Ballingslöv Group has a number of strong brands that give our products a clear profile and identity. This overview shows in which markets the brands are sold and whether they include bathrooms as well as kitchens. Each brand is presented in more detail on the following pages.

**K** =kitchens **B** =bathrooms

# Our brands – an overview

BRAND	DENMARK	UK	NORWAY	SWEDEN
 	<b>K</b> <b>B</b>		<b>B</b>	<b>K</b> <b>B</b>
 			<b>K</b>	
 	<b>K</b> <b>B</b>		<b>K</b> <b>B</b>	<b>K</b> <b>B</b>
 	<b>K</b> <b>B</b>		<b>K</b> <b>B</b>	<b>K</b> <b>B</b>
 	<b>K</b> <b>B</b>		<b>K</b> <b>B</b>	<b>K</b> <b>B</b>
 		<b>K</b>		
 	<b>K</b> <b>B</b>			
 				<b>K</b>

The Ballingslöv brand in Sweden has an advanced position in the field of fitted kitchens and bathrooms. Around 75 per cent of total sales are generated by the Swedish market. Ballingslöv exports mainly to Norway and Denmark.

Awareness of the brand is high. Ballingslöv stands for high quality and finish, good design and one of the most flexible product ranges in the market. Every year a number of new ranges of fitted kitchens are launched. Consumers perceive that the Ballingslöv brand gives them a reliable choice and that the investment increases the value of their home. The fact that Ballingslöv has a presence in both the kitchen and bathroom segments strengthens the brand.

The brand is seen regularly in advertising in interior design magazines and the popular press. Great emphasis is placed on managing the brand and on creating loyal customer groups who recommend Ballingslöv and make repeat purchases. Kitchen and bathroom catalogues that are distributed in print runs of several hundred thousand are also important in terms of profiling the brand. Being a publicly listed company also generates valuable awareness of the brand.

Sales in Sweden are channelled through builders' merchants and via specialist kitchen retailers, or directly to house factories. All sales staff are offered training in such subjects as sales technique and product knowledge under Ballingslöv's guidance. The aim is to create fully-fledged kitchen architects. As kitchens and bathrooms are fixed installations, the consumer has a real need to be able to discuss various solutions with knowledgeable staff.



There is a trend towards builders' merchants becoming more focused on the specialist trade, creating more display space for kitchens and bathrooms, and developing their advisory function. This is in contrast with building materials suppliers, which are aimed more at the DIY market. Another trend is that specialist kitchen retailers are getting bigger, giving Ballingslöv the opportunity to display its flexible product concepts in even greater detail.

There are more than 200 retailers in Ballingslöv's Swedish distribution system. The strategy is to work together with independent, exclusive traders. When collaborating with other players, for example flooring companies, it is important that these too have strong brands. In the 30 largest towns and cities Ballingslöv is focusing on partnerships with larger retailers. In the Danish market Ballingslöv is marketed through over 50 builders' merchants.



## SWENOVAKÖK – A COMPLEMENT TO BALLINGSLÖV®

SweNovaKök

Fitted kitchens from SweNovaKök complement the Ballingslöv brand. SweNova, which is only marketed in Sweden, is sold primarily in kitchen and white goods shops. The brand represents high quality, attractive design and a broad product range. The fact that SweNova is a part of a publicly listed Group contributes towards retailers having great faith in the brand.

In order to manage and develop the brand, SweNova invests in product development,

maintains a consistent approach in its marketing and provides comprehensive training for retailers. The aim is to create an even more comprehensive distribution network.

The sales trend in 2004 was good, and the distribution network was reinforced in areas including the Stockholm region. The objective for the year ahead is to gain further market share in the consumer kitchen segment.

## DRØMMEKJØKKENET – A GROWING BRAND



Drømmekjøkkenet is the Group's kitchen brand that is specific to Norway, where it has been in existence for around 30 years. In recent years sales have increased dramatically. In 2004 Drømmekjøkkenet reported growth that was significantly higher than market growth.

Drømmekjøkkenet is perceived by consumers as an exclusive brand with a broad product range. Traditionally Norwegian consumers have bought traditional kitchens, but now there is increased interest in modern, minimalist kitchens, and this is reflected in Drømmekjøkkenet's range of products. Sales are made predominantly via specialist kitchen retailers, primarily as an exclusive brand, in other cases in combination with other brands. The objective is to further increase the number of sales outlets.

Drømmekjøkkenet advertises regularly in the popular press and interior design magazines, and also does some TV advertising. Its kitchens have also been featured in a series of programmes on TV2 in Norway.

Drømmekjøkkenet's products are manufactured in Ballingslöv AB's factory in Sweden. The Group also sells some fitted bathrooms in Norway, under the Ballingslöv brand name. The PHS sector is the dominant sales channel in Norway for bathrooms, and the Ballingslöv Group's sales are generated mainly through procurement contracts in connection with major new construction and renovation projects for homes.

## PAULA ROSA – RICH DESIGN CONTENT



Paula Rosa, the Group's brand in the UK, profiles itself through its rich design content, good quality and service. The brand is in the upper intermediate segment.

New ranges of fitted kitchens from Paula Rosa now have a more continental profile, to satisfy changes in customer preferences in the UK and to generate higher margins. In 2004 the focus was entirely on sales to the construction sector, while retail sales, which accounted for a small proportion of net sales, were closed down. However, retail sales are still generated from the large Paula Rosa showroom at the factory.

To maintain the brand, Paula Rosa places great emphasis on being perceived as a reliable supplier of quality kitchens. As well as fitted kitchens, Paula Rosa also supplies white goods and assumes responsibility for the full installation process. The market consists of a limited number of players, which is why a good reputation is crucially important for sales. In addition to a high level of involvement in day-to-day work, the brand is made visible via press activities and advertising. During the year ahead Paula Rosa will be launching new ranges of fitted kitchens and developing its already strong customer service function.

## JKE DESIGN – PLENTY OF CHOICES

JKE Design is one of Denmark's leading brands for fitted kitchens and also for bathrooms. Almost two thirds of sales relate to Denmark, one third to Norway and a small proportion to Sweden, where sales are in a startup phase. There are also some sales on Iceland and Greenland.

The brand is characterised by high quality, flexibility and plenty of choice. The product range includes everything from modern, minimalist kitchens to more traditional designs. The former are in demand mainly in Denmark, the latter in Norway.

Sales in Denmark are generated via a chain of about 30 JKE single-brand retailers, evenly distributed all over the country, which sell this brand exclusively as regards kitchens, bathrooms and storage systems. Two new shops were opened in 2004 and many others were modernised. During the year the focus was on further strengthening the brand and the retail chain through marketing and training. The brand is profiled on an ongoing basis through advertising on TV and in the popular press and interior design magazines. Retailers are given training in sales techniques through a partnership with an external consultant.

JKE Design products are distributed in Norway via a network of around 40 retailers with national



coverage. Some are builders' merchants that have decided to focus on kitchens, others are specialist kitchen outlets. In 2004 collaboration started with two more specialist retailers and with one of Norway's biggest builders' merchants. The JKE Design brand is reinforced through advertising in the popular press and in interior design magazines. During the year a comprehensive training programme for retailers was launched.

Swedish sales are generated through ten or so specialist kitchen retailers, and the trend is positive.

In 2004 JKE Design entered into a royalty agreement with a supplier of sliding hatches. These are sold under the JKE Design brand.

## MULTIFORM – AN EXCLUSIVE BRAND

Multiform is the Group's most exclusive brand and is profiled as classic, minimalist design. Multiform also markets fitted bathrooms in the same style as the kitchens.

The brand is distributed in Denmark via



branded kitchen specialists, and in Sweden and Norway via shops that also sell other brands. To deal with increased competition from players in the mid-price segment, in 2004 Multiform further refined its retail concept in Denmark. The distribution network was reviewed and the quality requirements were sharpened for the 20 or so Danish retailers that sell Multiform. The year also saw the development of a new communication platform for the brand. This was to enable marketing activities to further emphasise Multiform's position in the top segment. Surveys show that Multiform continues to have a strong image in relation to kitchens in the mid-price segment.

Greater emphasis was also placed on marketing in Sweden and Norway, partly in the form of advertisements in exclusive interior design magazines. An extension of the distribution network has also been started in these countries.

## dfi – THE BRAND FOR WORKTOPS



dfi mainly manufactures worktops and accounts for around 70 per cent of the Group's sales of such worktops. The range consists primarily of laminate and solid wood worktops. At the same time there is an increasing interest in dfi's worktops in materials such as glass, steel, composite material and terrazzo/concrete. The objective is to be perceived as the most innovative manufacturer of worktops. Other keywords are quality and delivery performance.

dfi offers great opportunities for individual customisation, and markets this via kitchen retailers. By informing and training retailers about the potential of the products, dfi can make a greater impact on consumers. Many consumers still view worktops as an element of a fitted kitchen and not always as an individual feature.

dfi focuses mainly on worktops for the mid-price segment and above, although a standard range of worktops is also available to meet the

demand from low-price kitchen manufacturers. A separate brand is Danlamin, for simpler products such as window seat panels, for example.



## SVANE KØKKENET – THE GROUP'S NEW BRAND



As from 2005 Svane Køkkenet is a new brand in the Ballingslöv Group. The brand is one of the two or three best known in the Danish market, and is characterised by good design, functional solutions and a high level of service. The brand is seen regularly in advertising in interior design magazines and the popular press.

Svane Køkkenet consists of 26 single-brand kitchen specialists all over Denmark, and markets products under the shared brand. Annual retail sales correspond to around MSEK 550.

The Svane shops, which used to be independent, will be organised as franchise businesses following the Ballingslöv Group's takeover, and will thus be able to operate in an even more distinctive, uniform way. This is expected to further reinforce Svane Køkkenet's market position. Starting in spring 2005, Svane Køkkenet's complete requirement of kitchen and bathroom cabinets will be manufactured at the Group's factory in Ballingslöv and assembled at a new factory facility outside Vejle in Denmark, from where customers will be supplied with complete kitchens including white goods.



# Employees

## PEOPLE AND METHODS

The high pace of development within Ballingslöv and the Group's efforts to offer consumers high quality and individually tailored fitted kitchens and bathrooms place great demands on employees. At the end of the year the Group had 904 employees in total, in a customer-oriented organisation with proven and reliable processes, methods and tools to guarantee that work is undertaken rationally and in accordance with prevailing quality requirements.

The Group wants to make sure that it maintains a non-bureaucratic organisation with extensively delegated responsibility and authority. Employees can act independently within an agreed framework, which creates a high level of personal commitment. This supports the objective of developing a corporate culture in which the employees' objectives are in line with those of the company. The process of change to become a resource-efficient, fast-moving, customer-oriented organisation can also be achieved more quickly.

### Experience and new skills

Of the 904 employees in the Group, 349 are white-collar employees and 555 blue-collar employees. The gender distribution is 74 per cent male and 26

per cent female. In the Swedish business around 10 per cent come from an immigrant background. There is a good balance between experience and new skills. In recent years there has been a significant increase in the number of employees with higher education qualifications. The Group's internationalisation and Stock Exchange listing place higher demands, which is why recruitment for administrative functions, for example, increasingly takes place at university and college level. By the same token, skills requirements among blue-collar employees are increasing as a result of computerisation and more advanced production equipment with programmable controls. Newly recruited operators will often have upper secondary education qualifications, specialising in wood technology. In order to cover future recruitment needs, the Group has contacts with several schools and offers pupils industrial placements.

### Skills development

In 2004 a large proportion of white-collar employees underwent IT training – in two of the Danish companies and in the UK company in conjunction with major IT installations. Further education for operators and other blue-collar employees often takes place in collaboration with suppliers of mechanical equipment. Ballingslöv also has a strong tradition of teaching and development in everyday work, i.e. employees learn from one another and strive to achieve common objectives. The combination of employees with long service and extensive knowledge of the business and younger employees is important for the Group's long-term development. Ballingslöv must be perceived as a future-oriented, dynamic Group, whose corporate philosophy is characterised by reliability and receptiveness to customers' needs. A joint set of basic values helps the organisation to operate in a methodical way and to do the right things right from the beginning.

### Craftsmanship and increased automation

The Group's manufacturing of fitted kitchens and bathrooms is a process that requires not only a high level of craftsmanship, but also, in order to strengthen the competitive position, a high degree of automation. Craftsmanship is needed, for example, when assessing the quality of materials or assembling carcasses, and in surface treatment and inspection work. In contrast to a manufacturer of low-price products that produces several thousand of carcasses every day for stock, Ballingslöv has a customer order-based manufacturing process for carcasses in various sizes. To this



end the company uses machines with a very short changeover time. The operator applies all of his or her professional skill when checking the products to ensure that they achieve the high quality that is the Group's hallmark.

Ahead of the start of production for Svane K kkenet at the Ballingsl v factory in spring 2005, around MSEK 100 was invested in this factory in 2004–2005, of which around MSEK 30 is directly attributable to production for Svane. The investment programme adds a strong competitive edge to both Ballingsl v's product range and to Svane. The Svane project means jobs for around 60 employees in Ballingsl v and around 20 in Denmark, mainly in production.

The strategic plan in place for the Group's manufacturing facilities will involve further integration, initially between the Group's Scandinavian factories.

Nor does the group exclude the possibility in due course of outsourcing the production of certain components to low-cost countries.

#### Faith in the future and a willingness to co-operate

Ballingsl v conducts regular business analyses in order to obtain guidelines for further improvements to the daily work situation and also to increase job satisfaction and motivation among employees. The answers from the latest survey reveal, among other things, that employees have faith in the future and perceive a good climate of co-operation. The ability to co-operate contributes towards Ballingsl v having a significantly lower accident rate at work than the wood processing industry as a whole. Exercise and preventive keep-

fit routines within the framework of various programmes also contribute to a healthy outlook on life. Activities now also include education and culture. Also of importance to the sense of solidarity and the process of change is regular information in the form of publications such as staff magazines and various kinds of weekly newsletters. In 2005 more resources will be invested in internal information.

#### Employees

- In December 2005 Ballingsl v had a total of 904 employees, of whom 395 were in Sweden, 289 in Denmark, 215 in the UK and 5 in Norway.
- 17 employees have been added through company acquisitions.

#### Average age

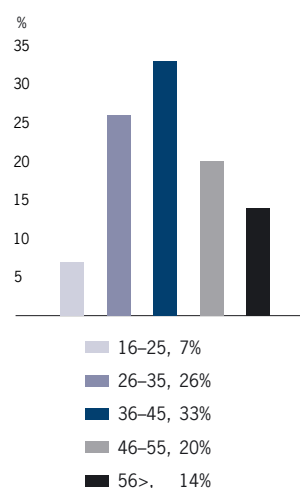
- Average age, female employees: 39
- Average age, male employees: 41

#### Absence through illness 2004

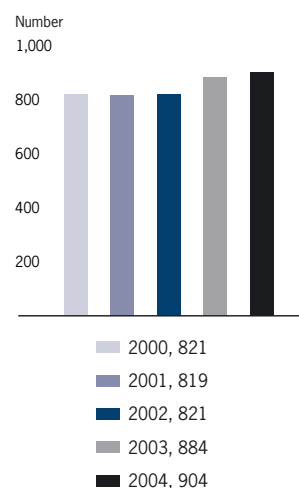
- Total absence through illness in the Group was 5.6% Both women and men had absence through illness of around 5%.
- Total long-term absence through illness was 2.5%, with absence through illness among women of 3.4% and among men of 2.3%.
- There were 13 accidents at work during the year, none of them serious.

Absence through illness per age group	Proportion
Aged 29 or less	4%
Aged 30–49	4%
Aged 50 or more	7%

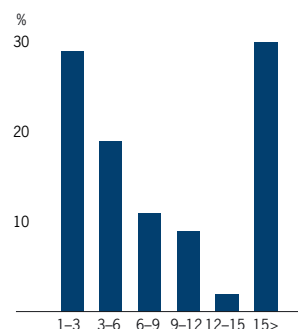
#### Employees' age structure



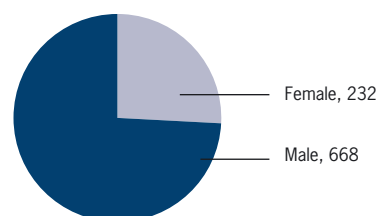
#### Trend in number of employees



#### Number of years' service



#### Average number of employees by gender



# Environment

## EXTENDED ENVIRONMENTAL WORK

The Ballingslöv Group works both externally and internally to improve resource utilisation and to limit its environmental impact. The internal working environment is also a subject of great attention.

The Group comfortably satisfies the environmental requirements in all countries where it operates. Ballingslöv AB has a licence for the emission of solvents and dust, as well as for noise levels.

What the environmental initiatives have in common is that the Group wants to strive to achieve long-term, sustainable development. Environmental work takes place primarily at company level, although by defining overall objectives for the Group it is possible to focus environmental work in areas where improve-

ments are considered to be most appropriate.

The objective is that the Group's environmental impact, within a reasonable financial framework, must be limited. Environmental work is therefore an integral element of daily operations and the subject of continuous development and change. The Group's Swedish factory has quality certification in accordance with the European standard ISO 9001:2000 and environmental certification in accordance with ISO 14001:1996. In all Danish factories there is a "safety committee" that deals in particular with matters relating to the working environment and with environmental matters in general. The UK business has a full-time Health and Safety officer.

### Mainly natural materials

Important base materials in the Group's production of fitted kitchens and bathrooms are wood components, chipboards and other wood fibre panels. Modern chipboards comply with the EU's environmental regulations (E1 norm), which means, among other things, minimum formaldehyde emissions. Wood is a natural material with no harmful environmental consequences.

In the Group's Swedish factory the premises are heated primarily by burning shavings produced as waste in the production process. Heating oil is only used as a backup in exceptional cases. The Danish factories use shavings or gas, and the UK factory only uses gas.

## 75 years of development

Ballingslövs Träförädling was founded in 1929, and in the course of its 75 years has grown from being a little joinery to become an international, publicly listed Group operating in the field of kitchens and bathrooms. In 2004, the year of its 75th anniversary, a further step was taken towards the stated objective of being one of the leading manufacturers in Europe. This is to be achieved via both organic growth and acquisitions. Greater size creates economies of scale in such areas as purchasing, production and logistics.

### Entrepreneurial flair and innovation

Ballingslöv's history is characterised by entrepreneurial flair, innovation and target-oriented work. Having managed to raise share capital of SEK 42,500, in spring 1929 joiner Albin Svensson was able to start production in newly-built premises strategically located by the main Malmö–Stockholm railway line. Initially production consisted of various joinery items, with the emphasis on doors, windows, staircases and kitchen cabinets.

In 1941 the notion of standardised kitchen modules was born, which could be combined to meet the customer's requirements with the aid of a special kind of splicing system. The system, which was subsequently patented and formed the basis of the Swedish Standard, immediately became a great success. From the 1950s there was significant organic growth and a refining of production methods. In the early 1960s exports to Denmark started, followed a few years later by exports to Norway as well. The so-called Ballingslöv spirit was a watchword in the industry, and was characterised by a great sense of affinity among employees, a high degree of continuity and a strong sense of responsibility. A spirit that lives on.

### Electrolux the new owner

In 1974 the Ballingslöv family business was acquired by the white goods group Electrolux. In the years that followed the range of products was extended and the first range of bathrooms was launched.



### Neither waste nor gases

For quality reasons, solvent-based paints and lacquers are used when painting carcasses. However, this is a clean process, in which the air from the machines passes through catalysts and is incinerated. A new technique will be introduced in spring 2005 in conjunction with the Svane Køkkenet project. This involves the paint being applied to the carcass using a mechanical roller rather than by spraying, after which the surface is hardened by UV drying. A process that generates no waste or gases. The new technique is also expected to reduce the overall consumption of solvent-based paints. The technique is suitable for a possible future transition to water-based paints.

### Pallet optimisation in transport operations

When products leave the factories they are packaged in environment-friendly shrink wrap, which breaks down to produce water and non-hazardous carbon dioxide. Corrugated paper is also used as packaging material, and this can later be reused or used as fuel.

In order to limit the number of transport operations, goods are either loaded individually or, if the products are to be loaded on pallets, an IT-based optimisation system is used.

Once fitted kitchens or bathrooms have served their purpose at some time in the future, most of the material is combustible, with the exception of some small metal accessories.



### A clean, safe working environment

The Ballingslöv Group undertakes regular initiatives to maintain a good working environment. The production premises are clean, dry and free from industrial dust. Customised extraction systems guarantee heat recycling and good air circulation. The machines are CE-labelled and effectively insulated against noise. CE-labelling is a European standard that was introduced in 1995.



As a part of Electrolux, Ballingslöv soon came to form the core of a cabinet division, and by the late 1980s the first step was taken towards the creation of today's Group. In 1989 the worktop producer dfi A/S in Denmark was acquired, and in 1990 Kingfisher Wood Products Ltd in the UK was bought.

### New main shareholder and Stock Exchange launch

After 24 years in the Electrolux Group, in 1998 Ballingslöv was sold to the venture capital company EQT, as an element of Electrolux's focus on white goods. The business, which under Electrolux had been organised in business areas for each country, was integrated and formed a Group, with Ballingslöv Holding AB as the parent company, subsequently changing its name to Ballingslöv International AB, as it is known today.

In 2000 Danish kitchen manufacturer JKE Design A/S was acquired. In June 2002 the Ballingslöv Group was launched on the Stockholm Stock Exchange's O-list. As a

publicly listed company, in February 2003 the Group acquired Danish kitchen manufacturer Multiform A/S, and in March 2004 the Danish retail chain Svane Køkkenet A/S.



Svane Logistik Center A/S outside Vejle in Denmark.

# The share and the shareholders

The Ballingslöv share was first listed on the Stockholm Stock Exchange's O-list on 19 June 2002, following a new share issue of 1,250,000 shares. The sale price was SEK 64 per share.

## Share capital

Ballingslöv's share capital totals SEK 21,451,516, divided among 10,725,758 shares. Each share provides entitlement to one vote, and each person entitled to a vote may vote at the AGM for the full number of shares held and represented without any limitation on voting rights. All shares provide entitlement to an equal share of Ballingslöv's assets and profit.

## Share price trend and turnover

At the year end Ballingslöv's market capitalisation was MSEK 1,051.0. The share price has risen by 24.8 per cent since 1 January 2004. Over the same period Affärsvärlden's General Index increased by 17.8 per cent. During the year the highest closing price recorded was SEK 98.0 on 30 December 2004, and the lowest closing price was SEK 69.5 on 16 March 2004, measured as the last price paid.

In 2004 4,300,333 Ballingslöv shares were traded, corresponding to 40.1 per cent of capital and votes. Trade in the shares took place every day the Stock Exchange was open, and the average volume traded per day of trading was 17,843 shares. The turnover rate, i.e. the share's liquidity on the Stockholm Stock Exchange, was an average of 40 per cent in 2004.

## Shareholders

Between 1974 and 1998 Ballingslöv was a wholly owned subsidiary of AB Electrolux. In July 1998 there was a change of ownership when investors behind the EQT Scandinavia 1 venture capital fund acquired Ballingslöv. In connection with the change of ownership and the Stock Exchange launch in 2002, Ballingslöv had about 1,200 new shareholders.

The number of shareholders at the year end

was around 2,500, corresponding to a reduction of 13.8 per cent during the year. The ten biggest shareholders account for 69.3 per cent of capital and votes, and foreign shareholders for 2.5 per cent. Ownership comprises 81.2 per cent legal persons and 18.8 per cent private persons. Of the total number of shares, 17.1 per cent or 1,838,865 shares were directly registered. The number of nominee registered shares at the year end totalled 82.9 per cent or 8,886,893 shares. The biggest shareholders at the end of 2004 are listed in the table below.

## Dividend policy

With the new IFRS rules, in which goodwill is not amortised, the proposed dividend for 2004 is about one third of net income after taxes. It is the Board's intention to be able to remain at around this level. Before the introduction of the new accounting rules, the dividend policy corresponded to around 50 per cent of net income after taxes over an economic cycle.

## Proposed dividend

The Board of Ballingslöv proposes that a dividend of SEK 3.25 per share be paid for the financial year.

Based on the share price at the year end, the proposed dividend represents a yield of 3.3 per cent.

## Shareholder value

For the purpose of increasing turnover in the Ballingslöv share and thus providing current and future shareholders with the conditions to value the company in a fair way, Group management works continuously to develop and improve the financial information and to actively participate in meetings with institutions, share investors, media and analysts.

## Biggest shareholders, 31-12-2004

Shareholder	Number of shares	Proportion of capital and votes
Stena	2,325,000	21.7%
Fairford Scandinavia AB	1,082,496	10.1%
Handelsbanken fonder	935,671	8.7%
AMF Pension fonder	795,000	7.4%
Odin fonder	659,461	6.2%
Lannebo fonder	506,200	4.7%
Livförsäkringsaktiefbolaget	455,700	4.3%
Carnegie	250,200	2.3%
Länsförsäkringar	217,900	2.0%
Danielsson, Nils-Erik	204,680	1.9%
Sub-total	7,432,308	69.3%
Total number of shares	10,725,758	

## Share price trend



## Key ratios per share

	ACTUAL		PRO FORMA		
	2004	2003	2002	2001	2000
Earnings per share, SEK	7.11	6.01	6.61	6.11	4.97
Earnings per share excluding goodwill, SEK	9.12	8.05	8.98	8.78	7.50
Dividend per share, SEK*	3.25	2.75	2.50	-	-
Equity per share, SEK***	43.45	43.28	41.44	39.55	31.04
Number of shares at year end, million**	10.73	10.73	10.73	8.75	8.75

\* Board's proposed disposal of profits

\*\* after reverse split

\*\*\* before impact of RR 29 47,23

## Share price data

	2004
Share price on 31/12, SEK	98.00
Market capitalisation on 31/12, MSEK	1,051.0
Highest price paid during year, SEK	98.00
Lowest price paid during year, SEK	69.50
Yield on 31/12, %	3.3
P/E ratio on 31/12, multiple	13.8
P/E ratio excl. goodwill on 31/12, multiple	10.8

## Breakdown of ownership of Ballingslöv share

Number of shares	Number of shareholders	Percentage of number of shareholders	Number of shares	Percentage of share capital and votes
1-1,000	2,115	84.5	758,948	7.1
1,001-10,000	326	13.0	976,592	9.1
10,001-100,000	41	1.6	1,212,610	11.3
100,001-1,000,000	19	0.8	4,370,112	40.7
>1,000,001	2	<0.1	3,407,496	31.8
<b>Total</b>	<b>2,503</b>	<b>100</b>	<b>10,725,758</b>	<b>100</b>

## Stockbrokers who monitor the share

Alfred Berg ABN AMRO  
 Swedbank Capital Markets & Securities  
 Hagströmer & Qviberg Fondkommission  
 Handelsbanken Capital Markets  
 ABG Sundal Collier  
 Carnegie Investment Bank AB\*

\* as from spring 2005

## Changes in share capital, 1998-2004

Date	Event	Change in number of shares	Total number of shares	Increase in share capital, SEK	Total share capital, SEK	Share's nominal value, SEK
May 1998	Company formation	100,000	100,000	100,000	100,000	1.0
Aug 1998	New share issue	17,400,000	17,500,000	17,400,000	17,500,000	1.0
Nov 1998	Issue of convertible debentures	-	-	-	-	-
Nov 1998	Issue of debenture loan combination with rights of option to subscribe to new shares	-	-	-	-	-
May 2002	Consolidation of shares 1:2	8,750,000	8,750,000	-	17,500,000	2.0
June 2002	New share issue	1,250,000	10,000,000	2,500,000	20,000,000	2.0
July 2002	Conversion of debentures	308,138	10,308,138	616,276	20,616,276	2.0
July 2002	Issue of rights of option	417,620	10,725,758	835,240	21,451,516	2.0

# Financial risk management

The Group's financial operations and management of financial risks are run on the basis of a finance policy adopted by the Board, aimed at keeping financial risks at a low level. The finance policy covers the following main areas: currency exposure, external borrowing and cash management (liquidity management, working capital management, customer credit policy, investments, etc.).

The purpose is to define financial risks within each area and to describe how to deal with them. The Board also uses the finance policy as a means of issuing directives on the scale of financial risks that Ballingslöv may take and the allocation of responsibility within the Group.

## Currency exposure

The Group's net income is exposed to exchange rate changes, as some of the income from sales is in different currencies than its costs (transaction exposure). Net income is also affected by changes in exchange rates when the net income of foreign subsidiaries is converted into Swedish kronor (conversion exposure). The Group's equity is also affected by changes in exchange rates when assets and liabilities in foreign subsidiaries are converted into Swedish kronor (conversion exposure).

## Transaction exposure

About 45–50 per cent of Ballingslöv's invoicing takes place in foreign currencies, mainly in British pounds, Danish kroner and Norwegian kroner. Purchases are made mainly in euros, Swedish kronor, Danish kroner and British pounds. Ballingslöv's net income is thus affected by changes in exchange rates.

Net exposure to currencies, i.e. the relationship between inflow and outflow in each currency, amounts to around 9.3 million euros (MSEK 85) (net outflow), MNOK 87.4 (MSEK 95) (net inflow) and MDKK 1.3 (MSEK 1.6) (net outflow). Ballingslöv thus has a total currency exposure of around MSEK 181, corresponding to around 14

per cent to net sales. Ballingslöv's finance policy aims to minimise in a cost-efficient way the financial risks to which Ballingslöv is exposed and to guarantee sufficient liquidity for day-to-day operations. The financial risk must in firstly be minimised through internal measures such as the matching of flows, the choice of invoicing currency and the consideration of interest rate risks in investments/liabilities, and secondly with the aid of financial instruments. 45–75 per cent of net flows are hedged six to twelve months in advance. Currency contracts are managed by each subsidiary, while other financial instruments such as currency options may only be managed by the Group's Finance Director. Trading in currency contracts, however, is always subject to the approval of the Group's Finance Director.

The actual value of hedging contracts not yet posted as income totalled MSEK 104.6 as at 31 December 2004. There is a summary of the effects of changes in the currencies that are most important to Ballingslöv under the heading "Sensitivity analysis" in this section.

As at 31 December 2004 the consolidated entry for goodwill totalled MSEK 304.6. Goodwill is written off on a linear basis over 20 years, generating an annual goodwill amortisation of around MSEK 21.6. The amortisation period of 20 years is justified by the fact that acquisitions and restructuring of companies is a long-term strategy, and acquisitions include brands that are significant to Ballingslöv. The goodwill item is entered under the parent company Ballingslöv International AB and the UK subsidiary Kingfisher Wood Products Ltd. The total acquisition value of the Group's goodwill is MSEK 428.6. Goodwill is written off in Swedish kronor, Danish kroner and British pounds, and the total annual amortisation of goodwill may vary somewhat

Note: With the introduction of the new accounting rules (IFRS), to be applied as from 2005, there will be no more amortisation of goodwill. The value of goodwill will instead be checked every year by means of an impairment test (cashflow model).

in the consolidated accounts due to changes in exchange rates. In addition to goodwill, the Group has intangible assets in the form of IT software to the value of MSEK 19.3.

#### Conversion exposure

The foreign companies are financed through equity and loans in the company's domestic currency. Hedging of equity in foreign subsidiaries only takes place in DKK, and as at 31-12-2004 totalled MSEK 56.2. Net assets in DKK totalled MSEK 110.6 as at 31-12-2004. The exchange rate difference from the conversion of foreign net assets in 2004 totalled MSEK -0.9 and the net income from equity hedging totalled MSEK 0.2, which is posted directly to the Group's equity.

#### Financing risk

Ballingslöv's net financial liability as at 31-12-2004 totalled MSEK 263.9, comprising financial liabilities and interest-bearing provisions of MSEK 329.7 (of which pension liability MSEK 94.9) and cash and bank balances MSEK 65.7.

Of the long-term liabilities, MSEK 173.1 falls due within five years of the year end, and the remaining MSEK 56.9 falls due after six years or more.

At the year end the credit available and liquid funds totalled MSEK 224.

#### Interest rate risk

The Group's financing cost is affected by changes in market interest rates. The interest rate maturity structure of the Group's financial liabilities is usually short, as indebtedness is relatively low. See note 38 for interest-bearing liabilities.

#### Credit risks

The Group's financial transactions give rise to credit risks in respect of financial counterparts. The risk that a counterpart does not fulfil his commitment is limited by the choice of credit-worthy counterparts, limitations to the exposure

to each counterpart and the use of agreements adapted for the business.

#### Insurance

Ballingslöv insures all of its facilities against the costs of property and loss of profits. The risk exposure for each facility is a maximum of MSEK 0.5 for each instance of damage to property. The risk exposure for loss of profits is a maximum of seven days per instance of damage, with a minimum of MSEK 0.5.

#### Sensitivity analysis

Ballingslöv's net income is affected by such factors as changes in sales volumes, the price of materials used and the trends in the currencies most important to Ballingslöv, i.e. Danish kroner, Norwegian kroner and the euro. The table below shows how the net income before taxes is affected by changes in the most important parameters.<sup>1)</sup>

Reported effects are based on conditions during 2004, and aim to provide an indication of how the net income after net financial items is affected by an isolated change in each parameter.

The table only denotes the transaction effects of exchange rate changes, and not the accounting effects as a result of changes in exchange rates when consolidating the Group's results.

#### Effect on net income

Parameter	Change	Before taxes, MSEK
Net sales	+/- 1%	+/- 7.0
Purchasing expenses	+/- 1%	+/- 4.3
Wage expenses	+/- 1%	+/- 3.6
DKK/SEK	+/- 1%	+/- 0.5
NOK/SEK	+/- 1%	+/- 1.0
EUR/SEK	+/- 1%	-/+ 1.0
Interest levels	+/- 1% point	-/+ 2.3

<sup>1)</sup> For example, an increase in the NOK/SEK exchange rate, i.e. a strengthening of the Norwegian kroner in relation to the Swedish krona, will have a positive effect on Ballingslöv's net income, as the company has a net inflow of Norwegian kroner.

# Five-year summary

INCOME STATEMENT MSEK	ACTUAL				PRO FORMA
	2004	2003	2002	2001	2000
Net sales	1,298.3	1,204.5	1,159.6	1,233.9	1,100.4
Operating income before depreciation (EBITDA)	181.6	168.3	167.1	162.7	146.9
Operating income before goodwill amortisation (EBITDA)	153.5	140.0	142.2	135.2	121.5
Operating income (EBIT)	126.7	118.1	119.1	111.9	99.4
Net income before taxes	115.1	99.6	99.4	84.9	71.9
Net income after taxes	76.3	64.5	64.5	53.5	43.5
Net income for the period excluding goodwill amortisation	103.1	86.4	87.6	76.8	65.7
EBITDA margin %	14.0	14.0	14.4	13.2	13.3
EBITA margin %	11.8	11.6	12.3	11.0	11.0
EBIT margin %	9.8	9.8	10.3	9.1	9.0

Over the five-year period net sales have increased from MSEK 1,100 to MSEK 1,298, as a result of both organic growth and acquisitions. Net sales over the five-year period have grown by an average of 5.4 per cent. Organic growth has increased by 3.5 per cent, and acquired net sales accounted for 1.9 per cent.

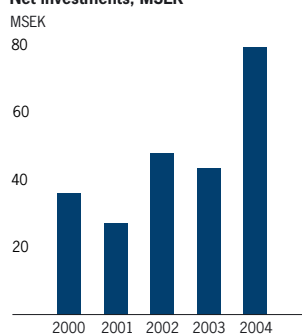
BALANCE SHEET MSEK	ACTUAL				PRO FORMA
	2004	2003	2002	2001	2000
Intangible assets	324.0	331.6	351.1	390.0	394.9
Tangible and financial fixed assets	250.4	216.2	214.4	199.6	191.0
<b>Total fixed assets</b>	<b>574.4</b>	<b>547.8</b>	<b>565.5</b>	<b>589.6</b>	<b>585.9</b>
Operating assets	397.1	391.5	402.1	412.8	339.5
Liquid funds	65.7	68.8	73.1	29.1	39.2
<b>Total current assets</b>	<b>462.8</b>	<b>460.3</b>	<b>475.2</b>	<b>441.9</b>	<b>378.7</b>
<b>Total assets</b>	<b>1,037.2</b>	<b>1,008.1</b>	<b>1,040.7</b>	<b>1,031.5</b>	<b>964.6</b>
<b>Equity and minority interests</b>	<b>466.1</b>	<b>464.6</b>	<b>445.0</b>	<b>346.6</b>	<b>272.0</b>
Interest-bearing liabilities and provisions	329.7	308.2	370.9	430.6	458.5
Non interest-bearing liabilities and provisions	241.4	235.3	224.8	254.3	234.1
<b>Total liabilities</b>	<b>571.1</b>	<b>543.5</b>	<b>595.7</b>	<b>684.9</b>	<b>692.6</b>
<b>Total equity and liabilities</b>	<b>1,037.2</b>	<b>1,008.1</b>	<b>1,040.7</b>	<b>1,031.5</b>	<b>964.6</b>

Over the five-year period the balance sheet total increased from MSEK 965 to MSEK 1,037. Inventories and current receivables, which mainly consist of accounts receivable, comprise around 40 per cent of the balance sheet total. Intangible assets consist mainly of goodwill arising in connection with the acquisition of companies or businesses. Provisions consist mainly of pension liabilities, guarantee reserves and deferred tax. Long-term and short-term interest-bearing liabilities consist exclusively of bank loans.

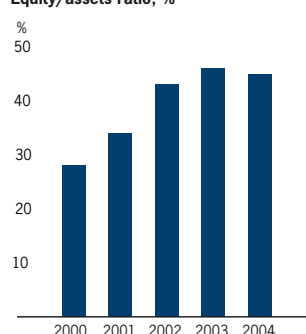
CASHFLOW STATEMENT MSEK	ACTUAL				PRO FORMA
	2004	2003	2002	2001	2000
Operating income	126.7	118.1	119.1	111.9	99.4
Depreciation	55.1	50.2	48.0	50.8	47.6
Other items not affecting liquidity	4.8	5.7	3.8	4.1	3.7
Net financial items	-10.2	-17.7	-20.1	-31.7	-27.5
Tax	-34.9	-25.4	-29.4	-31.8	-44.1
<b>Cashflow before changes in working capital</b>	<b>141.5</b>	<b>130.9</b>	<b>121.4</b>	<b>103.3</b>	<b>79.1</b>
Changes in working capital	1.3	-2.9	-24.8	-40.3	-35.2
<b>Cashflow from current operations</b>	<b>142.8</b>	<b>128.0</b>	<b>96.6</b>	<b>63.0</b>	<b>43.9</b>
Cashflow from investment operations	-79.2	-43.4	-47.8	-27.2	-42.3
Cashflow from financing operations	-67.6	-89.0	-4.7	-45.7	-54.6
<b>Cashflow for the period</b>	<b>-4.0</b>	<b>-4.4</b>	<b>44.1</b>	<b>-9.9</b>	<b>-53.0</b>

KEY DATA, 5 YEARS MSEK	ACTUAL				PRO FORMA
	2004	2003	2002	2001	2000
<b>Returns</b>					
Return on equity, %	16.8	14.2	16.3	17.3	17.3
Return on capital employed, %	16.2	15.3	15.6	15.5	14.3
Return on total capital, %	12.7	11.7	12.0	11.7	10.8
<b>Capital structure</b>					
Interest coverage ratio, multiple	8.7	5.6	5.0	3.7	3.3
Debt/equity ratio, multiple	0.7	0.7	0.8	1.2	1.7
Net liability incl. pension provisions, MSEK	264.0	239.4	297.8	401.5	419.3
Net liability excl. pension provisions, MSEK	176.4	212.4	266.6	373.4	393.7
Equity/assets ratio, %	44.9	46.1	42.8	33.6	28.2
<b>Investments</b>					
Net investments, MSEK	79.2	43.4	47.8	27.2	42.3
<b>The shar</b>					
Earnings per share, SEK	7.11	6.01	6.61	6.11	4.97
Earnings per share excluding goodwill, SEK	9.12	8.05	8.98	8.78	7.50
<b>Employees</b>					
Average number of employees	900	868	816	861	850

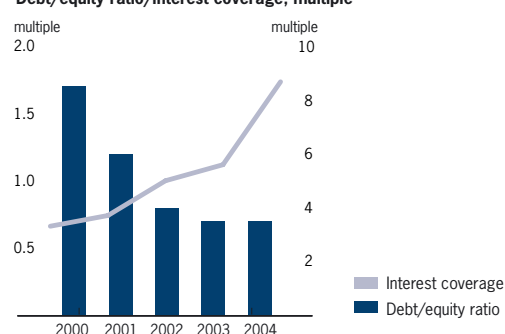
**Net investments, MSEK**



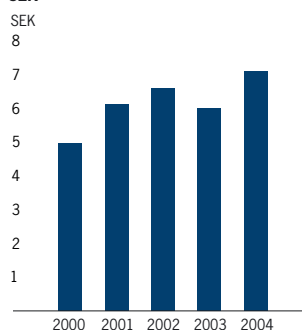
**Equity/assets ratio, %**



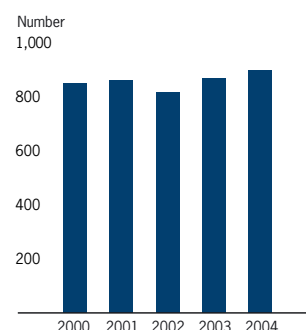
**Debt/equity ratio/interest coverage, multiple**



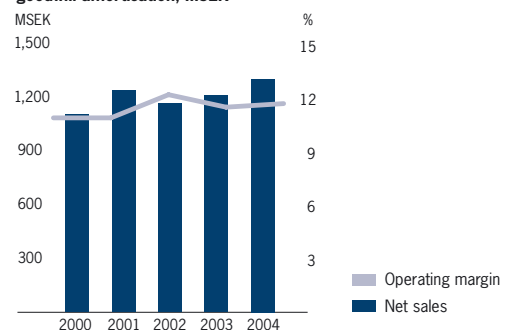
**Net income for the year per share, SEK**



**Average number of employees**



**Net sales and operating margin before goodwill amortisation, MSEK**



Actual financial development for the year 2000 based on proforma rather than fully audited accounts.

# Directors' Report

Ballingslöv is one of the leading manufacturers of fitted kitchens in Scandinavia and the UK. The products are characterised by carefully planned design, tremendous flexibility and high quality. Manufacturing takes place in the Group's own facilities in Sweden, Denmark and the UK. The product range also includes bathroom products.

## NET SALES AND NET INCOME

### Net sales

Ballingslöv's net sales increased in 2004 by 8 per cent to MSEK 1,298.3, compared to MSEK 1,204.5 the previous year.

### Net income

Net operating income increased in 2004 by 7 per cent to MSEK 126.7 (118.1), corresponding to 9.8 per cent (9.8) of net sales. Net income after financial items and before taxes totalled MSEK 115.1 (99.6), corresponding to 8.9 per cent (8.3) of net sales. Net income for the year totalled MSEK 76.3 (64.5), corresponding to SEK 7.11 (6.01) per share, calculated on the basis of the average number of shares during the period.

### Operations during the year

The market in Sweden was better than the previous year in both the refurbishment and the new construction segments. Low interest rates, stable or slightly increasing property prices and a continued high level of interest in kitchen and bathroom products were important driving forces behind the demand. In total it is estimated that the market increased by 7–8 per cent.

The Norwegian market also experienced healthy growth during the year, and is also estimated to have increased by 7–8 per cent.

The market in Denmark recorded growth too, probably at a level of 6–7 per cent. The low-price segment with non-assembled kitchens is considered to have grown more quickly than the market in general.

Ballingslöv continued to experience a positive sales trend in its Scandinavian operation during 2004. Organic growth before currency effects totalled around 9 per cent, which is considered to be somewhat higher than the overall market trend.

The extension of the distribution system in Scandinavia has continued, with the emphasis on exclusive retailers and bigger product displays. There is an increased focus on towns and cities with high purchasing power.

At the end of the first quarter in 2004 an agreement was reached to acquire the brand names, franchise concepts and all other rights in the Danish retail chain Svane Køkkenet. Svane Køkkenet consists of 26 specialist kitchen retailers and a joint company for purchasing, marketing and product development. The Svane shops, with about 200 employees, will be organised as franchisees to encourage even more distinctive, uniform operations.

Svane Køkkenet is one of the two or three biggest and best-known brands in the Danish kitchen market. The Group's Swedish factory, Ballingslöv AB, will be manufacturing this new distribution channel's entire needs in terms of kitchen and bathroom cabinets. The value of deliveries on an annual basis is expected to total around MSEK 250 for the Group, starting during the second quarter of 2005.

During the year there were investments relating to Svane Køkkenet in an assembly factory in Denmark of around 3,500 m<sup>2</sup> with about 30 employees. At Ballingslöv AB's site investments include extensions covering around 7,500 m<sup>2</sup>. The total new employment impact of the Svane project for Ballingslöv AB is estimated at about 60 people. Other preparatory work on investments in machinery, recruitment, creation of organisation and systems, etc. has gone well, even if the project has been delayed somewhat compared to the original schedule.

Of the estimated startup costs of MSEK 5–10 for the Svane project, it is estimated that around MSEK 3 have affected net income for the year. The remaining costs will be divided between the first and second quarters of 2005.

In late autumn 2004 a Ballingslöv retailer was acquired with four outlets in the Stockholm region. The intention is to strengthen and develop the shops, and in due course to transform them into franchisees.

The operating margin before goodwill amortisation in the Scandinavian business was 14.3 per cent (14.8). The operating margin before goodwill amortisation and before negative exchange rate

changes, mainly attributable to the Norwegian krone, was 15.0 per cent.

Net income in the Scandinavian business was affected positively by the growth in sales, by good capacity utilisation in the factories and by continuing co-ordination measures within the Group. Higher energy prices and raw material costs, as well as startup costs for the Svane project, had a negative effect.

Demand in the UK within our primary market segment, new construction of privately built small homes, appears to have remained largely unchanged compared to the previous year.

The improvement programme that we launched during the second quarter, which was aimed at increasing the focus on our main customer category, construction companies for private homes, and at reducing the cost level by such means as a staff reduction of around 50

people, was on the whole successful, which resulted in an improvement in net income compared to the previous year.

There was also a positive effect on the UK business's net income from growth in sales during the second half of the year, especially towards the end of the year.

In 2004 the Ballingslöv Group managed to improve its net income and profitability despite negative exchange rate effects of around MSEK 7, the cost of the improvement programme in the UK company of around MSEK 4.5 and startup costs for the Svane project of around MSEK 3. The underlying business thus showed a positive development.

Sales growth, good capacity utilisation in the factory and continuing measures to improve co-ordination within the Group are the factors behind the growth in net income and profitability.

## Key data

MSEK (UNLESS SPECIFIED OTHERWISE)	2004	CHANGE	2003
Net sales	1,298.3	+8%	1,204.5
Operating income before goodwill amortisation (EBITA)	153.5	+10%	140.0
Operating income before goodwill amortisation (EBITA), %	11.8		11.6
Operating income (EBIT)	126.7	+7%	118.1
Operating margin, %	9.8		9.8
Net income after financial items	115.1	+16%	99.6
Net income for the year	76.3	+18%	64.5
Net income for the year per share, SEK	7.11	+18%	6.01
Average number of shares during the period, millions	10.73		10.73
Dividend per share, SEK (proposed)	3.25	+18%	2.75
Return on capital employed, %	16.2		15.3
Return on equity, %	16.8		14.2
Interest coverage ratio, multiple	8.7		5.6
Debt/equity ratio	0.7		0.7
Equity/assets ratio, %	44.9		46.1
Net investments	79.2		43.4
Average number of employees	900		868

## Net sales and operating income before goodwill amortisation (EBITA) in each geographical region

MSEK	NET SALES		EBITA	
	2004	2003	2004	2003
Scandinavia	979.4	901.6	139.9	133.0
UK	318.9	302.9	13.6	7.0
<b>Total</b>	<b>1,298.3</b>	<b>1,204.5</b>	<b>153.5</b>	<b>140.0</b>

## FINANCIAL STATUS

### Equity

Equity in the Group as at 31 December 2004 totalled MSEK 466.0 (464.4), corresponding to SEK 43.45 (43.28) per share.

#### CHANGE IN EQUITY, MSEK

Opening equity	464.4
Dividend	-29.5
Conversion differences	-3.8
Effects on pensions pursuant to RR29	-41.4
Net income for the year	76.3
<b>Equity at the year end</b>	<b>466.0</b>

The equity/assets ratio dropped to 44.9 per cent (46.1). There was a negative impact on the equity/assets ratio of 4.0 percentage points as a result of adaptation to RR 29.

### Debt/equity ratio

The debt/equity ratio, i.e. interest-bearing liabilities in relation to equity, remained unchanged at 0.7 (0.7).

### Interest coverage

Interest coverage, i.e. net income after net financial items plus financial costs in relation to financial costs, improved to 8.7 (5.6). The objective is that the interest coverage ratio must be above 4.0.

### Liquid funds

At the year end liquid funds totalled MSEK 65.7 (68.8), corresponding to 5.1 per cent (5.7) of net sales.

At the year end the credit available and liquid funds totalled MSEK 224. It has been possible to reduce the average interest rate of the Group's loans by means of such measures as a reduction in net borrowing and an improved debt-equity ratio (before adjustment of the pension liability pursuant to RR 29).

### Inventories and current receivables

Inventories totalled MSEK 157.1 (153.2) and current receivables to MSEK 240.0 (238.3), corresponding to 12.1 per cent (12.7) and 18.5 per cent (19.8) respectively of net sales.

### Return on capital employed and equity

Return on capital employed was 16.2 per cent (15.3) and on equity 16.8 per cent (14.2).

### Cashflow

Cashflow from current operations improved sig-

nificantly to MSEK 142.8 (128.0). Cashflow from current operations in Scandinavia totalled MSEK 141.6 (99.3) and in the UK to MSEK 1.2 (28.7). There was an improvement in cashflow both from current operations before changes in working capital and from a relative improvement in working capital tied-up in the Scandinavian business. In the UK cashflow improved during the second half of the year as the new IT system (Movex) was fine-tuned.

### Investments

The Group's net investments during the year totalled MSEK 79.2 (43.4). Investments corresponded to 6.1 per cent (3.6) of the Group's net sales. The investments related mainly to production equipment at Ballingslöv AB in conjunction with the Svane project.

## EMPLOYEES

The average number of employees in 2004 was 900 (868), of whom 393 (359) were in Sweden. At the year end the total number of employees was 904 (883). Wages and remuneration during the year totalled MSEK 291.1 (263.4).

## PARENT COMPANY

The parent company conducts no operations of its own.

## OBLIGATION TO REGISTER AND OBTAIN PERMITS

There is a manufacturing facility in Sweden, which accounts for around 40 per cent of the total manufacturing value in the Group. This facility requires and holds an official permit. The permit covers such factors as the maximum values or limits for emissions to air and noise levels. There were no significant injunctions under the Environmental Code during the year.

Manufacturing units in other countries adapt their operations, apply for necessary permits and report to authorities in accordance with local legislation.

## TRANSITION TO IFRS

As from 2005 the Ballingslöv Group and the parent company will prepare reports in accordance with the International Financial Reporting Standards (IFRS). The annual accounts for 2004 will therefore be the last accounts to be produced in accordance with the Swedish Financial Accounting Standards Council's recommendations. The interim report for the first quarter of 2005 and the

annual accounts for 2005 will contain a reconciliation between our income statements and balance sheets for 2004 according to IFRS and according to the Group's current accounting principles.

### CHANGED TO ACCOUNTING PRINCIPLES

In 2002 the EU adopted the so-called IFRS 2005 ordinance, which prescribes that as from 2005 all publicly listed companies within the EU must draw up their consolidated accounts fully in accordance with the EU-approved International Financial Reporting Standards (IFRS).

The Stockholm Stock Exchange has recommended to publicly listed companies that they provide details of the most important differences between the company's current accounting principles and the IFRS principles that will be applied as from 2005, together with a quantitative review of the most important items in terms of size, with information about how the net income and financial status for 2004 would have been affected if IFRS had been applied instead of the current accounting principles.

The IFRS 1 standard deals with the transition to IFRS for companies using the regulations for the first time. The standard prescribes that when making the transition from national accounting principles, a company must present comparative information for at least one year according to IFRS.

A review of certain IAS/IFRS rules is still under way, and for this reason the comments and the effects described below should be viewed as preliminary and may be subject to change.

### INTANGIBLE FIXED ASSETS

Goodwill amortisation is not permitted according to IAS 38. It must instead be written down as required in accordance with the methodology prescribed in IAS 36. Write-down tests have been conducted at both the beginning and end of 2004, and according to these there is no need to perform any write-downs. In 2004 amortisation of goodwill under current accounting principles totalled MSEK 21.6. This means that application of IFRS for 2004 would have caused net income to have been improved by a total of MSEK 21.6.

### TANGIBLE FIXED ASSETS

In the case of investments in tangible fixed assets, according to IAS 16 assets must be divided into sub-components, with separate depreciation schedules for each sub-component, so-called component depreciation. The opening balance as

at 01-01-2004 has been converted, with the effect that previous years' depreciation creates a positive effect on equity to the order of MSEK 7.7. It is considered that the application of component depreciation in 2004 would have caused depreciation to be MSEK 0.8 lower compared to current accounting principles.

This means that the application of IFRS in respect of tangible fixed assets would have caused net income for 2004 to have been improved by a total of MSEK 0.6 (taking into account deferred tax MSEK 0.2).

### SUMMARY

The application of IFRS would have caused the Group's operating income for 2004 to have improved by MSEK 22.4 and the Group's net income to have improved by MSEK 22.2. Net income per share under IFRS would have improved by SEK 2.07.

### PROPOSED DISPOSITION OF EARNINGS

#### THE GROUP

According to the balance sheet, the Group's unrestricted equity amounts to SEK 289,236 thousand. No transfer to restricted reserves is required.

#### THE PARENT COMPANY

The following funds are at the disposal of the Annual General Meeting:

Profits carried forward, SEK	287,130,290
Net income for the year, SEK	71,105,619
	<b>358,235,909</b>

The Board of Directors and the Managing Director propose that the earnings be appropriated as follows:

that shareholders receive a dividend of	
SEK 3.25 per share	34,858,714
that the remaining amount be carried forward	323,377,195
	<b>358,235,909</b>

The parent company has made Group contributions to subsidiaries to the order of SEK 837 thousand.

#### NET INCOME AND FINANCIAL STATUS

Net income from the group's and the parent company's activities, together with the financial status at the end of the financial year, are described in the following income statement and balance sheet plus explanatory notes. All figures are in SEK thousand unless stated otherwise.



## INCOME STATEMENT

SEK THOUSAND	NOTE	THE GROUP		THE PARENT COMPANY	
		2004	2003	2004	2003
Net sales	2	1,298,295	1,204,543		
Cost of goods sold		-840,393	-775,282		
<b>Gross profit</b>		<b>457,902</b>	<b>429,261</b>	<b>0</b>	<b>0</b>
	3				
Selling expenses		-251,718	-243,523		
Administrative expenses	4, 5	-78,085	-65,636	-2,238	-1,202
Development expenses		-2,129	-2,204		
Other operating income		1,111	737		
Other operating expenses		-409	-506		
<b>Operating income</b>	6	<b>126,672</b>	<b>118,129</b>	<b>-2,238</b>	<b>-1,202</b>
Net income from shares in group companies	31			107,595	84,120
Interest income and similar income/loss items	7	3,387	3,076	174	172
Interest expenses and similar income/loss items	8	-14,990	-21,636	-4,175	-6,687
<b>Total net income from financial investments</b>		<b>-11,603</b>	<b>-18,560</b>	<b>103,594</b>	<b>77,605</b>
<b>Net income after financial items</b>		<b>115,069</b>	<b>99,569</b>	<b>101,356</b>	<b>76,403</b>
Year-end allocations	32			-10,573	-14,360
Tax on income for the year	9	-38,795	-35,241	-19,677	-12,610
Minority share of net income/loss for the year		52	149		
<b>Net income for the year</b>		<b>76,326</b>	<b>64,477</b>	<b>71,106</b>	<b>49,433</b>
<b>Earnings per share for the year, SEK</b>	10	<b>7.11</b>	<b>6.01</b>		

## BALANCE SHEET

SEK THOUSAND	NOTE	THE GROUP		THE PARENT COMPANY	
		2004	2003	2004	2003
<b>Assets</b>					
<b>Fixed assets</b>					
Intangible fixed assets					
Goodwill	12	304,567	321,329		
Brands	13	179	247		
Software	14	19,302	10,008		
		<b>324,048</b>	<b>331,584</b>		
Tangible fixed assets					
Buildings	15	84,399	84,368		
Land	16	25,837	26,333		
Machinery and other technical plant	17	67,873	72,114		
Equipment	18	14,001	24,304		
Construction in progress	19	53,497	5,282		
		<b>245,607</b>	<b>212,401</b>		
Financial fixed assets					
Shares in subsidiaries	33, 34			547,746	538,964
Prepaid loan expenses	20	413	573	413	573
Deferred tax assets	21	2,232	2,144		
Other long-term receivables	22	2,144	1,138		
		<b>4,789</b>	<b>3,855</b>	<b>548,159</b>	<b>539,537</b>
<b>Total fixed assets</b>		<b>574,444</b>	<b>547,840</b>	<b>548,159</b>	<b>539,537</b>
<b>Current assets</b>					
Inventories, etc.					
Raw materials and supplies		71,508	69,376		
Work in progress		33,903	39,936		
Finished goods and items traded		51,667	43,920		
		<b>157,078</b>	<b>153,232</b>		
Current receivables					
Accounts receivable		207,308	197,519		
Receivables from group companies				140,002	126,510
Current tax assets		1,280	5,149		
Other current receivables		9,170	6,492	2,626	88
Prepaid expenses and accrued income	23	22,246	29,098		
		<b>240,004</b>	<b>238,258</b>	<b>142,628</b>	<b>126,598</b>
Cash and bank balance		65,728	68,791	2,475	992
<b>Total current assets</b>		<b>462,810</b>	<b>460,281</b>	<b>145,103</b>	<b>127,590</b>
<b>Total assets</b>		<b>1,037,254</b>	<b>1,008,121</b>	<b>693,262</b>	<b>667,127</b>

SEK THOUSAND	NOTE	THE GROUP		THE PARENT COMPANY	
		2004	2003	2004	2003
<b>Equity and liabilities</b>					
<b>Equity</b>	10				
Restricted equity					
Share capital		21,452	21,452	21,452	21,452
Restricted reserves		155,340	147,200	96,827	96,827
		<b>176,792</b>	<b>168,652</b>	<b>118,279</b>	<b>118,279</b>
Unrestricted equity					
Unrestricted reserves		212,910	231,317	287,130	267,795
Net income for the year		76,326	64,477	71,106	49,433
		<b>289,236</b>	<b>295,794</b>	<b>358,236</b>	<b>317,228</b>
<b>Total equity</b>		<b>466,028</b>	<b>464,446</b>	<b>476,515</b>	<b>435,507</b>
<b>Minority interests</b>		<b>142</b>	<b>194</b>		
<b>Untaxed reserves</b>	35			<b>80,460</b>	<b>69,887</b>
<b>Provisions</b>					
Provisions for pensions and similar commitments	24	94,860	33,482		
Deferred tax liability	21	29,908	44,180		
Provision for guarantees	25	5,843	4,826		
Other provisions		-	619		
<b>Total provisions</b>		<b>130,611</b>	<b>83,107</b>		
<b>Long-term liabilities</b>	26				
Liabilities to credit institutes		193,615	233,580	72,683	109,350
<b>Total long-term liabilities</b>		<b>193,615</b>	<b>233,580</b>	<b>72,683</b>	<b>109,350</b>
<b>Current liabilities</b>					
Bank overdraft facility	27	4,777	4,660		
Liabilities to credit institutes		36,400	36,499	36,370	36,469
Prepayments from customers		6,402	318		
Accounts payable		101,806	89,161	715	65
Liabilities to group companies				20,328	12,457
Current tax liabilities		6,185	7,429	4,068	2,076
Other current liabilities		20,738	24,292	1,135	141
Accrued expenses and prepaid income	28	70,550	64,435	988	1,175
<b>Total current liabilities</b>		<b>246,858</b>	<b>226,794</b>	<b>63,604</b>	<b>52,383</b>
<b>Total equity and liabilities</b>		<b>1,037,254</b>	<b>1,008,121</b>	<b>693,262</b>	<b>667,127</b>
<b>Assets pledged</b>	29	<b>58,506</b>	<b>751,480</b>	<b>None</b>	<b>538,964</b>
<b>Contingent liabilities</b>	30	<b>584</b>	<b>41,232</b>	<b>43,279</b>	<b>44,044</b>

## CHANGES IN THE GROUP'S EQUITY

SEK THOUSAND	Note	Share capital	Restricted reserves	Unrestricted equity	Total equity
<b>Equity, 31-12-2002</b>		<b>21,452</b>	<b>145,680</b>	<b>277,528</b>	<b>444,660</b>
Exchange rate difference from conversion of foreign operations	10	-	-	-17,720	-17,720
<b>Total changes in equity that are not included in the income statement</b>		<b>0</b>	<b>0</b>	<b>-17,720</b>	<b>-17,720</b>
Net income for the year		-	-	64,477	64,477
Transfers between restricted and unrestricted equity		-	1,520	-1,520	-
Dividend	11	-	-	-26,971	-26,971
<b>Equity, 31-12-2003</b>		<b>21,452</b>	<b>147,200</b>	<b>295,794</b>	<b>464,446</b>
Effect of change of accounting principle					
Reporting of benefit-based pension plans pursuant to RR 29		-	-	-41,412	-41,412
<b>Adjusted opening balance 2004</b>		<b>21,452</b>	<b>147,200</b>	<b>254,382</b>	<b>423,034</b>
Exchange rate difference from conversion of foreign operations	10	-	-	-4,475	-4,475
Exchange rate difference from conversion of pension plans pursuant to RR 29		-	-	638	638
<b>Total changes in equity that are not included in the income statement</b>		<b>0</b>	<b>0</b>	<b>-3,837</b>	<b>-3,837</b>
Net income for the year		-	-	76,326	76,326
Transfers between restricted and unrestricted equity		-	7,670	-7,670	-
Dividend	11	-	-	-29,495	-29,495
<b>Equity, 31-12-2004</b>	<b>10</b>	<b>21,452</b>	<b>154,870</b>	<b>289,706</b>	<b>466,028</b>

## CHANGES IN THE PARENT COMPANY'S EQUITY

SEK THOUSAND	Note	Share capital	Premium fund	Statutory reserv	Unrestricted equity	Total equity
<b>Equity, 31-12-2002</b>		<b>21,452</b>	<b>93,327</b>	<b>3,500</b>	<b>296,015</b>	<b>414,294</b>
Group contribution made		-	-	-	-1,947	-1,947
Tax effect of group contribution		-	-	-	542	542
<b>Total changes in equity that are not included in the income statement</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>-1,405</b>	<b>-1,405</b>
Net income for the year		-	-	-	49,433	49,433
Dividend	11	-	-	-	-26,815	-26,815
<b>Equity, 31-12-2003</b>		<b>21,452</b>	<b>93,327</b>	<b>3,500</b>	<b>317,228</b>	<b>435,507</b>
Group contribution made		-	-	-	-837	-837
Tax effect of group contribution		-	-	-	234	234
<b>Total changes in equity that are not included in the income statement</b>		<b>0</b>	<b>0</b>	<b>0</b>	<b>-603</b>	<b>-603</b>
Net income for the year		-	-	-	71,106	71,106
Dividend		-	-	-	-29,495	-29,495
<b>Equity, 31-12-2004</b>	<b>10</b>	<b>21,452</b>	<b>93,327</b>	<b>3,500</b>	<b>358,236</b>	<b>476,515</b>

## CASHFLOW STATEMENT

SEK THOUSAND	NOTE	THE GROUP		THE PARENT COMPANY	
		2004	2003	2004	2003
<b>Current operations</b>					
Operating income		126,672	118,129	-2,238	-1,202
Depreciation		55,093	50,280		
Other items not affecting liquidity		4,924	5,570		
		<b>186,689</b>	<b>173,979</b>	<b>-2,238</b>	<b>-1,202</b>
Interest received		4,474	3,076	103	172
Group contributions and dividends received				95,557	83,001
Interest paid		-14,719	-20,745	-4,223	-7,235
Income tax paid		-34,908	-25,395	-17,700	-14,276
<b>Cashflow before changes in working capital</b>		<b>141,536</b>	<b>130,915</b>	<b>71,499</b>	<b>60,460</b>
Change in inventories		-2,138	-3,321		
Change in other current receivables		-6,415	-59,084	458	931
Change in other current operating liabilities		9,856	59,491	-2,642	-67
<b>Cashflow from current operations</b>		<b>142,839</b>	<b>128,001</b>	<b>69,315</b>	<b>61,324</b>
<b>Investment operations</b>					
Investments in intangible fixed assets		-4,926	-		
Investments in tangible fixed assets		-73,182	-37,696		
Disposal of tangible fixed assets		960	1,210		
Investments in financial assets	39	-2,196	-6,945	-1,748	-13,027
Disposal of financial assets		78	-		
<b>Cashflow from investment operations</b>		<b>-79,266</b>	<b>-43,431</b>	<b>-1,748</b>	<b>-13,027</b>
<b>Financing operations</b>					
Raisings of loan		306	-		
Repayment of debt		-38,471	-38,678	-36,588	-37,629
Change in bank overdraft facility		81	-23,335		
Dividend		-29,496	-26,971	-29,496	-26,815
<b>Cashflow from financing operations</b>		<b>-67,580</b>	<b>-88,984</b>	<b>-66,084</b>	<b>-64,444</b>
<b>Cashflow for the year</b>		<b>-4,007</b>	<b>-4,414</b>	<b>1,483</b>	<b>-16,147</b>
Liquid funds at the beginning of the year		68,791	73,100	992	17,139
Conversion difference in liquid funds		944	105		
<b>Liquid funds at the end of the year</b>		<b>65,728</b>	<b>68,791</b>	<b>2,475</b>	<b>992</b>

### NOTE 1 ACCOUNTING PRINCIPLES AND OTHER INFORMATION

The annual accounts have been drawn up in accordance with the Annual Accounts Act and recommendations and statements of the Financial Accounting Standards Council. As from this financial year the Financial Accounting Standards Council's recommendation RR 29 "Employee benefits" has been applied. Other accounting principles remain unchanged compared to the financial year 2003.

#### Revenue recognition

Revenue recognition from products sold takes place when the products are delivered to the customer. In cases where a sales contract includes both the delivery of goods and installation work, revenue recognition of the goods takes place on delivery while revenue recognition of the installation work takes place during the period when the work is executed. The scope of installation work is less than 5 per cent of the Group's total sales. Sales are posted net after VAT, discounts and exchange rate differences for sales in foreign currency. Sales within the group are eliminated in the consolidated accounts.

#### Consolidated accounts

The consolidated accounts include subsidiaries in which the parent company holds, either directly or indirectly, more than 50 per cent of the votes.

Inredet HK AB is 50 per cent owned, but as Ballingslöv International AB has a decisive influence through its ownership, delivery agreements and representation on the Board, the company appears in the accounts as a subsidiary.

The consolidated accounts have been drawn up in accordance with the acquisition method, which means that the subsidiaries' equity upon acquisition, defined as the difference between the actual values of assets and liabilities, is eliminated in full. The group's equity thus includes only that part of the subsidiaries' equity that has been

added after the acquisition.

If the group purchase value of the shares exceeds the value of the subsidiary's net assets as included in the acquisition analysis, the difference is included as group goodwill. The period of depreciation has been set at 20 years on the basis of the long-term, strategic nature of the acquisitions. Goodwill amortisation is posted, according to the nature of the acquisition, as Cost of goods sold or Administrative expenses.

Companies acquired during the year are included in the consolidated accounts at amounts relating to the period after the acquisition. Net income from companies sold during the year are included in the consolidated income statement until the date of disposal.

Deferred tax liability in respect of temporary differences relating to investments in subsidiaries and affiliated companies are not included in Ballingslöv's consolidated accounts, as the parent company can in all cases control the date of reversal of the temporary differences, and it is not considered likely that there will be any reversal in the foreseeable future.

All subsidiaries have been classified as independent units. Ballingslöv International AB therefore applies the current method when converting the year end accounts of foreign subsidiaries. This means that the assets and liabilities of foreign subsidiaries are converted using the exchange rate at the year end. Income and expenses are converted according to the average exchange rate for the year. Conversion differences are posted directly to the group's equity.

A bank loan in foreign currency used to finance the acquisition of a subsidiary has been posted since 2001 as a so-called hedging loan. This means that a loan in foreign currency is viewed as a hedging measure undertaken by the parent company in order to even out the changes

in the values of the net investment in a subsidiary caused by exchange rate fluctuations. The exchange rate for the loan is posted directly to equity to the extent that it corresponds to a conversion difference arising during the year for the subsidiary.

Internal profits that have arisen in connection with sales within the Group have been eliminated in full.

In the Group's income statement the minority share is included in net income for the year. The minority share in subsidiaries' capital is posted as a separate item in the Group's balance sheet.

#### Income taxes

Income taxes posted as expenses include tax that is to be paid or received in respect of the current year, adjustments in respect of previous years' current tax and changes in deferred tax.

Valuation of all tax assets and tax liabilities takes place at nominal amounts and is performed in accordance with the tax rules and tax rates that have been set or that have been announced and will in all probability be enforced.

For items posted in the income statement, the associated tax effects are also posted in the income statement. Tax effects of items posted directly to equity are posted as a deferred tax liability.

Deferred tax is calculated according to the balance sheet method on all temporary differences that arise between posted and tax values of assets and liabilities.

There are temporary differences in the event that the posted and tax values of assets or liabilities are different. Temporary differences have mainly arisen through untaxed reserves.

Year-end allocations and untaxed reserves are posted to the parent company according to their tax content due to the connection between accounting and taxation. Deferred tax is included at 28 per cent.

#### Receivables

Receivables have, after individual valuation, been entered at the amounts at which they are expected to be paid.

#### Receivables and liabilities in foreign currency

Receivables and liabilities in foreign currency are valued at the exchange rate at the year end. If currency guarantee measures have been undertaken, in the case of the Ballingslöv Group using forward hedging, the hedging rate is used. Transactions in foreign currency are converted in accordance with the average sight exchange rate on the transaction date.

Future flows are hedged, which means that revaluation does not take place on an ongoing basis, but when the instrument falls due for payment.

Exchange rate gains and losses on receivables and liabilities of an operational nature have been posted under operating income.

#### Inventories

Inventories are valued, applying the first in first out principle, at the lower of the purchase value and the net sale value at the year end.

Work in progress and finished goods are valued at the purchase value of material included, other direct costs incurred for the product and a reasonable mark-up for indirect costs.

#### Fixed assets

Tangible and intangible fixed assets are valued at purchase value minus depreciation. Assets are depreciated systematically over the estimated period of utilisation. The following depreciation terms are used for this:

	No. of years
Goodwill	20
Brands	5
Software	5
Buildings	20–40
Land improvements	20
Cars	5
IT equipment	3–5
Machinery and other technical plant	5–10
Equipments	5–10

Expenses incurred in improving the asset's performance over and above its original level increase the asset's reported value. Expenses for repairs and maintenance are posted as expenses immediately.

Goodwill is written off over 20 years on the basis of the long-term, strategic nature of the acquisitions. Goodwill amortisation is posted, according to the nature of the acquisition, as Cost of goods sold or Administrative expenses.

In the event that an asset's reported value exceeds its calculated recovery value, the asset is written down immediately to its recovery value.

#### Development work

Expenses incurred for research work are usually posted as expenses as they arise. The development work undertaken is extremely important to the Group, but is in the nature of maintenance development, which means that all the criteria of RR 15 are not satisfied, above all the require-

ment of a future cashflow as a consequence of the investment.

### **Pensions**

Benefit-based pension plans have been included in the consolidated accounts up to and including 2003 in accordance with local rules and regulations, with no conversion to common principles. By applying the Financial Accounting Standards Council's recommendation RR 29 "Employee benefits" as from 1 January 2004, benefit-based pension plans are posted in the consolidated accounts in accordance with common principles and calculation methods.

As of 1 January 2004 pension commitments have been calculated in accordance with RR 29. The difference compared to pension provisions as of 31-12-2003 has affected opening equity to the order of SEK 40,774 thousand. In accordance with RR 29 the comparative figures for 2003 have not been converted according to the new principle. In contribution-based plans the company pays fixed contributions to a separate legal entity and has no obligation to pay any further contributions. The group's net income is charged with costs as the benefits are earned.

In benefit-based plans payment is made to employees and former employees based on salary at the retirement date and the number of years worked. The Group bears the risk for ensuring that the promised payments are made.

The balance sheet contains the net value of calculated current value of commitments and actual value of managed assets as either an allocation or a long-term financial receivable.

As far as benefit-based plans are concerned, the pension cost and pension obligation are calculated according to the so-called Projected Unit Credit Method. This method allocates pension costs as employees perform services for the company that increase their entitlement to future remuneration. The calculation is performed annually by independent actuaries. The company's commitments are calculated at the current value of expected future payments, applying a discount rate corresponding to the interest rate for first-class corporate bonds or government bonds with a term corresponding to the current commitments. The most important actuarial commitments are listed in note 24.

Actuarial profits and losses can arise when defining the current value of the commitment and the actual value of managed assets. These arise either through the actual result deviating from earlier commitments or by the assumptions being

changed. The element of the cumulative actuarial profits and losses at the end of the previous year that exceeds 10 per cent of the greater of the current value of the commitments and the managed assets' actual value is posted in net income over the employees' average remaining service time.

The interest expense with a deduction of the expected return on managed assets is classified as a financial expense. Other expense items in the pension expense are charged to operating income.

Commitments for retirement pensions and family pensions for white-collar employees in Sweden are secured through, among other things, an insurance policy with Alecta. According to a statement issued by the Financial Accounting Standards Council's Emergency Group, URA 42, this is a benefit-based plan involving several employers. For the financial year 2004 the Group did not have access to information that enabled it to report this plan as a benefit-based plan. The ITP Pension plan that is secured through an insurance policy with Alecta is therefore reported as a contribution-based plan.

### **Prepaid loan expenses**

Prepaid loan expenses relating to refinancing of Ballingslöv are periodised over the term of the loans.

### **Financial instruments**

Financial instruments included in the balance sheet include cash and bank balance, receivables and operating liabilities. Receivables have, after individual valuation, been entered at the amounts expected to be received. Other financial instruments are valued at their nominal value.

### **Earnings per share for the year**

Earnings per share for the year are calculated as the net income for the year according to the income statement in relation to the average number of outstanding shares before and after dilution.

### **Segment reporting**

Operational branches contain products that are subject to risks and returns that differ from those of other operational branches. Geographical regions provide products within a special economic environment that is subject to risks and returns that are different from the risks and the return that apply for units that operate in other economic environments. In the Group operational branches are classified as primary segments and geographical regions as secondary segments.

The Group's operational branches can be

divided into fitted kitchens and fitted bathrooms. Given that fitted bathrooms only account around 5 per cent of the Group's activities, only one primary segment is reported. Segment information thus relates to the Group as a whole.

#### Lease agreements

The Group has a small number of financial lease agreements in respect of company cars. These involve negligible amounts and are therefore posted as operational leasing. Operational leasing charges are posted as expenses in the period to which they relate.

#### Cashflow statement

The cashflow statement is produced in accordance with the indirect method in the Financial Accounting Standards Council's recommendation RR 7. The reported cashflow only includes transactions that involve payments received or payments made.

Cashflow is divided into

- current operations
- investment operations
- financing operations

Liquid funds include cash and bank balances.

#### Provisions

Provisions are reported when the Ballingslöv

Group has a legal or informal obligation as a result of previous events, when an outflow of reserves is probable to regulate the commitment and when it is possible to calculate the amount in a reliable way. In cases where the Group expects a provision to be repaid, for example in accordance with an insurance contract, the repayment must be reported as a separate asset, but only when the repayment is as good as secure.

The Group reports the estimated commitment to repair and replace products that are still covered by guarantees at the year end. Calculation of provisions is based on historical data relating to the level of repairs and replacements. Most sales are covered by a two-year guarantee.

#### Loan expenses

Loan expenses are posted as expenses in the period to which they relate.

#### Internal pricing

Sales between companies in the Group are priced on market conditions. There are no intra-Group purchases or sales in the parent company.

#### Financial risk management

Financial risk management is described in the official annual report.

## NOTE 2 SEGMENT REPORTING

SECONDARY SEGMENTS – GEOGRAPHICAL REGIONS	2004	2003
Sales		
Scandinavia	970,258	891,829
UK	318,908	300,152
Other markets	9,129	12,562
<b>Total</b>	<b>1,298,295</b>	<b>1,204,543</b>
Assets		
Scandinavia	716,325	672,692
UK	320,929	335,429
<b>Total</b>	<b>1,037,254</b>	<b>1,008,121</b>
Net investments		
Scandinavia	72,006	31,929
UK	7,260	11,502
<b>Total</b>	<b>79,266</b>	<b>43,431</b>

The Group's business is run primarily in three geographical regions:

- In Scandinavia there is the development, manufacture and marketing of fitted kitchens and fitted bathrooms.
- In the UK there is the development, manufacture, installation and marketing of fitted kitchens.

- In other markets there is marketing of fitted kitchens.

The sales figures are based on the country where the customer is located. There are no sales between the geographical areas. Assets and investments are reported where the asset is located.

**NOTE 3 DEPRECIATION, WRITE-DOWNS AND REVERSALS**

In total the Group's net income is charged with depreciation to the order of SEK 55,093 thousand (SEK 50,280 thousand), of which SEK 21,622 thousand (SEK 21,471 thousand) constitutes goodwill. Of total goodwill amortisation, SEK 13,880 thousand (SEK 13,865 thousand)

constitutes Group goodwill.

The amortisation expense of Group goodwill is included under Cost of goods sold. The depreciation expense for other goodwill and software is included under Administrative expenses.

**NOTE 4 AUDIT FEES**

THE GROUP	2004	2003
Audit assignments, Öhrlings PricewaterhouseCoopers	1,271	1,474
Other assignments		
Öhrlings PricewaterhouseCoopers	567	633
Others	-	169
<b>Total</b>	<b>1,838</b>	<b>2,276</b>
THE PARENT COMPANY		
Öhrlings PricewaterhouseCoopers		
Audit assignments	185	41
Other assignments	245	31
<b>Total</b>	<b>430</b>	<b>72</b>

Audit assignments relate to the auditing of the annual accounts and bookkeeping as well as the Board's and the Managing Director's administration, other tasks that are the duty of the company's auditor as well as advice or other representative activities arising from observations during such an audit or the performance of such other tasks. Anything else falls under 'other assignments'.

**NOTE 5 WAGES AND REMUNERATION**

THE GROUP	2004	2003
Wages and remuneration totalled		
The Board of Directors and the Managing Director		
The parent company and subsidiaries in Sweden (of which commission SEK 577 thousand (SEK 720 thousand))	3,086	3,508
Subsidiaries in Denmark	3,706	3,719
Subsidiary in the UK	1,479	2,641
	<b>8,271</b>	<b>9,868</b>
Other employees		
The parent company and subsidiaries in Sweden	102,895	91,375
Subsidiaries in Denmark	103,882	95,696
Subsidiaries in Norway	1,736	2,515
Subsidiary in the UK	74,344	63,995
	<b>282,857</b>	<b>253,581</b>
<b>Total wages and remuneration</b>	<b>291,128</b>	<b>263,449</b>
<b>Statutory and contractually agreed social costs excl. pension expenses</b>	<b>48,073</b>	<b>43,407</b>
Pension expenses		
Parent company and subsidiaries in Sweden (of which for the Board and the Managing Director SEK 1,016 thousand (SEK 1,400 thousand))	8,170	7,913
Subsidiaries in Sweden (of which for the Board and the Managing Director SEK 252 thousand (SEK 245 thousand))	8,154	7,290
Subsidiaries in Norway	64	99
Subsidiary in the UK (of which for the Board and the Managing Director SEK 134 thousand (SEK 92 thousand))	7,164	8,042
<b>Total pension costs (of which for boards and managing directors SEK 1,402 thousand (SEK 1,773 thousand))</b>	<b>23,552</b>	<b>23,344</b>
<b>Total wages, remuneration, social costs and pension expenses for the Group</b>	<b>362,753</b>	<b>330,200</b>

**NOTE 5 CONT.**

THE PARENT COMPANY	2004	2003
Wages and remuneration totalled		
Other employees	577	422
Statutory and contractually agreed social costs excl. pension expenses	205	154
Pension expenses	-	28
<b>Total wages, remuneration, social costs and pension expenses for the parent company</b>	<b>782</b>	<b>604</b>

Further information is contained in the Employees section.

**Fees and remuneration**

The fees to the Board for the period until the 2005 AGM have been set at SEK 750 thousand, of which the Chairman of the Board receives SEK 250 thousand. There are no agreements on future severance payments for the Chairman of the Board or the Board's members.

In 2004 the CEO received wages and other remuneration totalling SEK 2,386 thousand, of which SEK 577 thousand constituted bonus payments. The CEO's bonus is based mainly on how the Group's operating profit develops in relation to defined objectives, and also on how certain personal project objectives are achieved. These are both quantitative and qualitative in nature. The total bonus may be no more than 50 per cent of basic salary. Other benefits for the CEO include the benefit of a company car. The CEO has a retirement age of 65, and provision is made for a pension in the form of an individual occupational pension scheme as well as the posting of a liability

to cover a supplementary pension. In 2004 premiums for pension schemes were posted to expenses to the order of SEK 248 thousand, and an additional sum of SEK 809 thousand was set aside for the supplementary pension.

The period of notice for the CEO is 24 months on the part of the company. The period of notice on the part of the CEO is 6 months. There is no severance payment.

Wages and other benefits totalling SEK 7,022 thousand were paid to other senior executives in the Group (eight people) in 2004. The retirement age for these people is 60–65. The period of notice for these people is 6–12 months on the part of the company and 3–6 months on the part of the executives. No severance payments have been agreed for any of the senior executives.

Remuneration to the CEO and other senior executives is agreed by the Board following a review by a compensation committee appointed by the Board.

**NOTE 6 EXCHANGE RATE DIFFERENCES**

Operating income includes exchange rate differences relating to operating receivables and operating liabilities as follows:

THE GROUP	2004	2003
Exchange rate differences	-220	-867
<b>Total</b>	<b>-220</b>	<b>-867</b>

Some of the expected flows of foreign currencies are hedged. Without these hedging arrangements, the total exchange rate difference in operating income would have increased to SEK -507 thousand (SEK -4,390 thousand) in the Group. Further information about hedging measures may be found under the heading Financial risk management.

**NOTE 7 INTEREST INCOME AND SIMILAR INCOME/LOSS ITEMS**

THE GROUP	2004	2003
Interest income from current receivables	2,470	3,074
Exchange rate differences	917	2
<b>Total</b>	<b>3,387</b>	<b>3,076</b>

THE PARENT COMPANY	2004	2003
Interest income from current receivables	174	172
<b>Total</b>	<b>174</b>	<b>172</b>

**NOTE 8** INTEREST EXPENSES AND SIMILAR INCOME/LOSS ITEMS

THE GROUP	2004	2003
Interest expenses	-14,549	-19,979
Exchange rate differences	-281	-1,497
Bank expenses	-160	-160
<b>Total</b>	<b>-14,990</b>	<b>-21,636</b>
THE PARENT COMPANY		
Interest expenses	-4,005	-6,324
Exchange rate differences	-10	-203
Bank expenses	-160	-160
<b>Total</b>	<b>-4,175</b>	<b>-6,687</b>

**NOTE 9** TAX ON NET INCOME FOR THE YEAR

THE GROUP	2004	2003
Current tax	-36,575	-27,131
Deferred tax	-2,220	-8,110
<b>Total</b>	<b>-38,795</b>	<b>-35,241</b>
Specification of the Group's total tax		
Net income before taxes	115,069	99,569
Tax according to current tax rate, 28%	-32,219	-27,879
Tax effect of non-deductible expenses	-522	-484
Tax effect of goodwill amortisation	-3,886	-3,884
Tax effect of goodwill amortisation abroad	-2,323	-2,282
Tax effect of net income abroad	155	-712
<b>Total taxes</b>	<b>-38,795</b>	<b>-35,241</b>
THE PARENT COMPANY		
Current tax	-19,677	-12,610
<b>Total</b>	<b>-19,677</b>	<b>-12,610</b>
Specification of current tax		
Net income before taxes	90,783	62,043
Tax according to current tax rate, 28%	-25,419	-17,372
Tax effect of non-deductible expenses	-25	-34
Tax effect of tax-free dividends and shareholder contribution	5,767	4,796
<b>Total current tax</b>	<b>-19,677</b>	<b>-12,610</b>

## NOTE 10 EQUITY

### EXCHANGE RATE DIFFERENCES IN EQUITY

THE GROUP	2004	2003
Opening balance	19,030	36,750
Change from the year's conversion of existing subsidiaries	-4,475	-17,720
<b>Closing balance</b>	<b>14,555</b>	<b>19,030</b>

A specification of changes in equity may be found in the section entitled Changes in equity.

Currency hedging measures have made it possible to reduce exchange rate differences for the Group by SEK 214 thousand (SEK 873 thousand). The parent company has no exchange rate differences in its equity.

The share capital consists of 10,725,758 class A shares at a nominal value of SEK 2. The number of shares remained unchanged in 2004.

## NOTE 11 SHARE DIVIDEND

At the AGM on 14-04-2005 a dividend payment for 2004 of SEK 3.25 per share, SEK 34,859 thousand in total, will be proposed. This amount has not been posted as a liability, but will be posted

as a disposal of profits under equity for the financial year 2005. Dividend payments in respect of 2003 and 2002 totalled SEK 29,496 thousand and SEK 26,815 thousand respectively.

## NOTE 12 GOODWILL

THE GROUP	2004	2003
Opening acquisition values	425,242	436,639
Changes during the year		
Through acquisitions	6,929	5,232
Conversion differences	-3,552	-16,629
<b>Closing cumulative acquisition values</b>	<b>428,619</b>	<b>425,242</b>
Opening depreciation	-103,913	-86,230
Changes during the year		
Depreciation	-21,622	-21,477
Conversion differences	1,483	3,794
<b>Closing cumulative depreciation</b>	<b>-124,052</b>	<b>-103,913</b>
<b>Closing residual value according to plan</b>	<b>304,567</b>	<b>321,329</b>

## NOTE 13 BRANDS

THE GROUP	2004	2003
Opening acquisition values	4,313	4,317
Changes during the year		
Conversion differences	-3	-4
<b>Closing cumulative acquisition values</b>	<b>4,310</b>	<b>4,313</b>
Opening depreciation	-4,066	-3,601
Changes during the year		
Depreciation	-66	-465
Conversion differences	1	-
<b>Closing cumulative depreciation</b>	<b>-4,131</b>	<b>-4,066</b>
<b>Closing residual value according to plan</b>	<b>179</b>	<b>247</b>

**NOTE 14 SOFTWARE**

THE GROUP	2004	2003
Opening acquisition values	11,034	-
Changes during the year		
Purchases	4,890	11,034
Reclassification	9,784	-
Conversion differences	-156	-
<b>Closing cumulative acquisition values</b>	<b>25,552</b>	<b>11,034</b>
Opening depreciation	-1,026	-
Changes during the year		
Depreciation	-5,190	-1,026
Reclassification	-304	-
Conversion differences	270	-
<b>Closing cumulative depreciation</b>	<b>-6,250</b>	<b>-1,026</b>
<b>Closing residual value according to plan</b>	<b>19,302</b>	<b>10,008</b>

**NOTE 15 BUILDINGS**

THE GROUP	2004	2003
Opening acquisition values	140,777	135,421
Opening acquisition values in acquired companies	-	8,444
Changes during the year		
Purchases	5,312	2,734
Sales and disposal	-320	-
Reclassifications	1,385	-1,407
Conversion differences	-1,111	-4,415
<b>Closing cumulative acquisition values</b>	<b>146,043</b>	<b>140,777</b>
Opening depreciation	-56,409	-50,487
Opening depreciation in acquired companies	-	-2,150
Changes during the year		
Sales and disposal	320	-
Depreciation	-5,260	-4,431
Reclassifications	-686	-
Conversion differences	391	659
<b>Closing cumulative depreciation</b>	<b>-61,644</b>	<b>-56,409</b>
<b>Closing residual value according to plan</b>	<b>84,399</b>	<b>84,368</b>
Property tax value of buildings in Sweden	15,497	15,440
Book value of buildings in Sweden	12,863	13,973

**NOTE 16 LAND**

THE GROUP	2004	2003
Opening acquisition values	27,642	28,887
Opening acquisition values in acquired companies	-	826
Changes during the year		
Conversion differences	-359	-2,071
<b>Closing cumulative acquisition values</b>	<b>27,283</b>	<b>27,642</b>

**NOTE 16 CONT.**

Opening depreciation	-1,308	-1,144
Changes during the year		
Depreciation	-138	-164
<b>Closing cumulative depreciation</b>	<b>-1,446</b>	<b>-1,308</b>
<b>Closing residual value according to plan</b>	<b>25,837</b>	<b>26,333</b>
Property tax value of land in Sweden	1,728	1,703
Book value of land in Sweden	2,370	2,509

**NOTE 17 MACHINERY AND OTHER TECHNICAL PLANT**

THE GROUP	2004	2003
Opening acquisition values	331,975	311,097
Opening acquisition values in acquired companies	-	8,122
Changes during the year		
Purchases	11,063	14,242
Sales and disposal	-563	-899
Reclassifications	-1,385	1,407
Reallocation from ongoing installation of new plant	3,939	515
Conversion differences	-879	-2,509
<b>Closing cumulative acquisition values</b>	<b>344,150</b>	<b>331,975</b>
Opening depreciation	-259,861	-240,608
Opening depreciation in acquired companies	-	-4,229
Changes during the year		
Sales and disposal	357	368
Depreciation	-17,482	-16,506
Conversion differences	709	1,114
<b>Closing cumulative depreciation</b>	<b>-276,277</b>	<b>-259,861</b>
<b>Closing residual value according to plan</b>	<b>67,873</b>	<b>72,114</b>

**NOTE 18 EQUIPMENT**

THE GROUP	2004	2003
Opening acquisition values	67,948	63,062
Opening acquisition values in acquired companies	1,049	2,891
Changes during the year		
Purchases	3,904	6,148
Sales and retirements	-2,664	-1,320
Reclassifications	-9,804	-
Conversion differences	-539	-2,833
<b>Closing cumulative acquisition values</b>	<b>59,894</b>	<b>67,948</b>
Opening depreciation	-43,644	-37,582
Opening depreciation in acquired companies	-369	-1,658
Changes during the year		
Sales and disposal	1,860	661
Depreciation	-5,108	-6,211
Reclassifications	990	-
Conversion differences	378	1,146
<b>Closing cumulative depreciation</b>	<b>-45,893</b>	<b>-43,644</b>
<b>Closing residual value according to plan</b>	<b>14,001</b>	<b>24,304</b>

**NOTE 19 CONSTRUCTION IN PROGRESS**

THE GROUP	2004	2003
Opening expenses incurred	5,282	2,552
Expenses incurred during the year	52,162	3,266
Reallocations during the year	-3,939	-515
Conversion differences	-8	-21
<b>Closing cumulative acquisition values</b>	<b>53,497</b>	<b>5,282</b>

**NOTE 20 PREPAID LOAN EXPENSES**

THE GROUP	2004	2003
Opening acquisition value	800	800
<b>Closing cumulative prepaid loan expenses</b>	<b>800</b>	<b>800</b>
Opening cumulative depreciation	-227	-67
Depreciation during the year	-160	-160
<b>Closing cumulative depreciation of prepaid loan expenses</b>	<b>-387</b>	<b>-227</b>
<b>Closing residual value according to plan</b>	<b>413</b>	<b>573</b>
THE PARENT COMPANY		
Opening acquisition value	800	800
<b>Closing cumulative prepaid loan expenses</b>	<b>800</b>	<b>800</b>
Opening cumulative depreciation	-227	-67
Depreciation during the year	-160	-160
<b>Closing cumulative depreciation of prepaid loan expenses</b>	<b>-387</b>	<b>-227</b>
<b>Closing residual value according to plan</b>	<b>413</b>	<b>573</b>

**NOTE 21 DEFERRED TAX ASSETS AND TAX LIABILITIES**

DEFERRED TAX ASSET PER TEMPORARY DIFFERENCE	2004	2003
THE GROUP		
Fixed assets		
Buildings	-473	-473
Provisions		
Provision for pensions	2,046	1,820
Subsidiaries' tax loss carryforwards	659	797
<b>Total deferred tax assets</b>	<b>2,232</b>	<b>2,144</b>
DEFERRED TAX LIABILITIES PER TEMPORARY DIFFERENCE		
THE GROUP		
Over-depreciation of fixed assets	16,263	16,330
Untaxed reserves	30,607	26,570
Provision for pensions pursuant to RR 29	-17,480	-
Other temporary differences	518	1,280
<b>29,908</b>	<b>44,180</b>	

**NOTE 22 OTHER LONG-TERM RECEIVABLES**

THE GROUP	2004	2003
Opening acquisition values	1,138	960
Changes during the year		
Additional receivables	1,407	187
Receivables deducted	-397	-1
Conversion differences	-4	-8
<b>Closing cumulative purchase values</b>	<b>2,144</b>	<b>1,138</b>

**NOTE 23 PREPAID EXPENSES AND ACCRUED INCOME**

THE GROUP	2004	2003
Prepaid insurance policies	225	21
Prepaid rent	1,866	1,911
Accrued rental income	547	633
Prepaid exhibition costs	166	159
Other items	6,668	11,486
Accrued income	12,774	14,888
<b>Total</b>	<b>22,246</b>	<b>29,098</b>

**NOTE 24 PROVISIONS FOR PENSIONS AND SIMILAR COMMITMENTS**

THE GROUP	2004	2003
Benefit-based pension plans in the UK	57,341	-
Provisions for FPG/PRI pensions in Sweden	30,210	26,982
Other pensions and similar commitments	7,309	6,500
<b>Total</b>	<b>94,860</b>	<b>33,482</b>

**Provisions for pensions and similar commitments**

Benefit-based pension plans	94,860	33,482
-----------------------------	--------	--------

Within the Group there are a number of benefit-based pension plans, in which employees are entitled to remuneration when employment ceases on the basis of final salary and length of service.

The biggest plans are in Sweden and the UK.

**Benefit-based pension plans**

The amounts posted in the consolidated balance sheet have been calculated as follows:

Current value of commitments invested	197,360
Actual value of managed assets	-140,026
	<b>57,334</b>
Current value of commitments not invested	40,998
Unreported actuarial profits (+) and losses (-)	-3,472
<b>Net liability in balance sheet</b>	<b>94,860</b>

The net amount is posted in the following items in the consolidated balance sheet:

Provisions for pensions and similar commitments	94,860
	<b>94,860</b>

**NOTE 24 CONT.**

THE GROUP	2004
<b>The amounts posted in the consolidated income statement are as follows</b>	
Expenses relating to service during current year	21,772
Interest expense	1,780
Actuarial net losses (+) and profits (-) that are posted for the year	121
	<b>23,673</b>
<b>Specification of changes in the net liability posted in the consolidated balance sheet</b>	
Net liability at the beginning of the year according to the adopted balance sheet	33,482
Effect of change of accounting principle	59,132
<b>Adjusted net liability at the beginning of the year</b>	<b>92,614</b>
Net expense posted in the income statement	6,568
Payment of benefits	-3,410
Exchange rate differences in foreign plans	-912
<b>Net liability at year end</b>	<b>94,860</b>
<b>Most important actuarial assumptions at year end</b>	
Discount rate	4.48-5.25
Expected return on managed assets	4.0-7.0
Future annual wage increases	3.0-3.75
Future annual pension increases	2.75-3.0
Staff turnover	5.0

As at 31-12-2003 the pension assets that will have to cover the pension commitments in the UK subsidiary Kingfisher Wood Products Ltd fell short of the pension liability by SEK 58,132 thousand, SEK 40,592 thousand taking into account deferred tax. In the consolidated balance sheet

this difference has been posted as a contingent liability (note 30).

Ballingslöv AB has arranged a pension scheme in favour of the CEO that is posted as a liability on an ongoing basis. At the year end the provision totalled SEK 7,309 thousand (SEK 6,500 thousand).

**NOTE 25 PROVISION FOR GUARANTEES**

THE GROUP	2004	2003
Opening value	4,826	4,610
Opening value in acquired subsidiary	-	180
Provision during the year	6,574	277
Reduction of reserve	-5,557	-241
<b>Total</b>	<b>5,843</b>	<b>4,826</b>

**NOTE 26 LONG-TERM LIABILITIES**

## THE GROUP

Of long-term liabilities, SEK 173,053 thousand (SEK 229,604 thousand) falls due within 5 years of the year end, and the remaining SEK 56,932 thousand (SEK 3,976 thousand) falls due after 6 years or more. All long-term liabilities are interest-bearing.

## THE PARENT COMPANY

All of the parent company's long-term liabilities are interest-bearing and fall due within 5 years of the year end.

**NOTE 27 BANK OVERDRAFT FACILITY**

## THE GROUP

The group has a total authorised bank overdraft facility, converted at the exchange rate at the year end, of SEK 91,880 thousand (SEK 105,962 thousand), of which SEK 4,777 thousand (SEK 4,660 thousand) had been utilised as at 31-12-2004.

## THE PARENT COMPANY

The parent company has an unutilised bank overdraft facility of SEK 3,000 thousand (SEK 0).

**NOTE 28 ACCRUED EXPENSES AND PREPAID INCOME**

THE GROUP	2004	2003
Accrued interest expenses	3,121	2,864
Accrued wages and holiday pay	30,830	25,956
Accrued social costs	13,378	12,289
Other items	23,221	23,326
<b>Total</b>	<b>70,550</b>	<b>64,435</b>
THE PARENT COMPANY		
Accrued interest expenses	700	1,007
Accrued wages and holiday pay	205	112
Accrued social costs	83	56
<b>Total</b>	<b>988</b>	<b>1,175</b>

**NOTE 29 ASSETS PLEDGED**

THE GROUP	2004	2003
For own provisions and liabilities		
Property mortgages	50,527	51,529
Corporate mortgages and similar items	7,979	6,804
Shares in subsidiaries incl. security in working capital	-	693,147
<b>Total</b>	<b>58,506</b>	<b>751,480</b>
THE PARENT COMPANY		
For own provisions and liabilities		
Shares in subsidiaries	-	538,964
<b>Total</b>	<b>-</b>	<b>538,964</b>

**NOTE 30 CONTINGENT LIABILITIES**

THE GROUP	2004	2003
Pension commitments, see also note 24	584	41,232
<b>Total</b>	<b>584</b>	<b>41,232</b>
THE PARENT COMPANY		
Guarantee commitments for subsidiaries	43,279	44,044
<b>Total</b>	<b>43,279</b>	<b>44,044</b>

**NOTE 31 NET INCOME FROM SHARES IN GROUP COMPANIES**

THE PARENT COMPANY	2004	2003
Dividends from subsidiaries	20,595	17,120
Group contributions from subsidiaries	87,000	67,000
<b>Total</b>	<b>107,595</b>	<b>84,120</b>

**NOTE 32 YEAR-END ALLOCATIONS**

THE PARENT COMPANY	2004	2003
Provision for allocation fund	-23,100	-14,360
Reversal of allocation fund	12,527	-
<b>Total</b>	<b>-10,573</b>	<b>-14,360</b>

**NOTE 33 SHARES IN SUBSIDIARIES**

	Corp. ID no.	Reg. office	
Ballingslöv AB	556028-1429	Hässleholm, Sweden	
dfi A/S	57 41 71 10	Herning, Denmark	
Kingfisher Wood Products Ltd	34 71 086	Storrington, England	
JKE Design A/S	63 27 10 12	Jerslev, Denmark	
Multiform A/S	18 60 64 88	Kibaek, Denmark	
Multiform Erhverv A/S	26 47 87 66	Kibaek, Denmark	
Bad & Kökshuset i Stocksund AB	556542-6482	Stockholm, Sweden	
JKE Design i Stockholm AB	556583-9916	Stockholm, Sweden	
Inredet HK AB	556468-2259	Stockholm, Sweden	
Kök & Badmiljö i Stockholm Norr AB	556635-3529	Stockholm, Sweden	
Kök & Badmiljö i Inverness AB	556635-5912	Stockholm, Sweden	
Kök & Badmiljö i Södertälje AB	556594-6042	Stockholm, Sweden	
Kök & Badmiljö i Stockholm AB	556591-5930	Stockholm, Sweden	
Svane Logistik Center A/S	27 98 92 41	Randers, Denmark	
Dotterbolag till JKE Design A/S			
JKE Design Oslo AS	96 44 18 470	Oslo, Norway	
JKE Design Bergen AS	98 47 33 763	Bergen, Norway	
JKE Design Fyn	26 88 25 40	Odense, Denmark	
	Equity share, %	Number of shares	Reported value
Ballingslöv AB	100	90,000	139,624
dfi A/S	100	1	63,957
Kingfisher Wood Products Ltd	100	9,533,000	180,743
JKE Design A/S	100	1,000	140,787
Multiform A/S	100	3,100	12,541
Multiform Erhverv A/S	100	500	486
Bad & Kökshuset i Stocksund AB	100	1,000	246
JKE Design i Stockholm AB	100	1,000	105
Inredet HK AB	50	500	475
Kök & Badmiljö i Stockholm Norr AB	100	1,000	1,730
Kök & Badmiljö i Inverness AB	100	1,000	1,486
Kök & Badmiljö i Södertälje AB	100	1,000	1,511
Kök & Badmiljö i Stockholm AB	100	1,000	3,439
Svane Logistik Center A/S	100	500	616
<b>Total</b>			<b>547,746</b>

**NOTE 34 FINANCIAL SHARES IN SUBSIDIARIES**

THE PARENT COMPANY	2004	2003
Opening acquisition value	538,964	525,937
Company acquisitions	1,748	13,027
Shareholder contributions made	7,034	-
<b>Closing acquisition value</b>	<b>547,746</b>	<b>538,964</b>

**NOTE 35 UNTAXED RESERVES**

THE PARENT COMPANY	2004	2003
Allocation funds	80,460	69,887
<b>Total</b>	<b>80,460</b>	<b>69,887</b>
Deferred tax in untaxed reserves totals	22,529	19,568

**NOTE 36 AVERAGE NUMBER OF EMPLOYEES**

THE GROUP	2004	2003
The parent company and subsidiaries in Sweden		
Men	300	275
Women	93	84
	<b>393</b>	<b>359</b>
Subsidiaries abroad		
Denmark		
Men	208	186
Women	71	66
	<b>279</b>	<b>252</b>
Norway		
Men	2	1
Women	3	6
	<b>5</b>	<b>7</b>
UK		
Men	158	180
Women	65	70
	<b>223</b>	<b>250</b>
<b>Total for the Group</b>	<b>900</b>	<b>868</b>
THE PARENT COMPANY		
Men	1	1

**NOTE 37 OPERATIONAL LEASING**

THE GROUP	2004	2003
Leasing expenses	9,823	11,890
	<b>9,823</b>	<b>11,890</b>
Future payment commitments in the Group as at 31 December 2004 for operational leasing contracts total the following nominal amounts:		
2005	9,820	
2006	7,697	
2007	5,645	
2008	3,469	
2009	1,767	
2010 or later	6,711	
Expenses for the rent of premises	7,667	8,085

The parent company has no operational lease agreements or any expenses for the rent of premises.

**NOTE 38 INTEREST-BEARING LIABILITIES**

THE GROUP	2004	2003
Pensions	94,860	33,482
Long-term debts to credit institutes	193,615	233,580
Bank overdraft facility	4,777	4,660
Short-term debts to credit institutes	36,400	36,499
	<b>329,652</b>	<b>308,221</b>
THE PARENT COMPANY		
Long-term debts to credit institutes	72,683	109,350
Short-term debts to credit institutes	36,370	36,469
	<b>109,053</b>	<b>145,819</b>
WEIGHTED AVERAGE EFFECTIVE INTEREST RATES ON LOANS FOR THE GROUP		
THE GROUP		
Pensions	5.1	5.3
Long-term debts to credit institutes	4.0	4.1
Bank overdraft facility	4.0	4.1
Short-term debts to credit institutes	4.0	4.1
THE PARENT COMPANY		
Long-term debts to credit institutes	3.1	3.8
Short-term debts to credit institutes	3.1	3.8
INTEREST-BEARING LIABILITIES IN EACH CURRENCY		
THE GROUP		
SEK	37,051	33,891
GBP	8,568	8,568
DKK	13,461	14,636
THE PARENT COMPANY		
SEK	52,900	70,540
DKK	46,350	61,810

## NOTE 39 ACQUISITION OF SUBSIDIARIES

In 2004 the Group acquired Kök & Badmiljö i Stockholm Norr AB, Kök & Badmiljö i Inverness AB, Kök & Badmiljö i Södertälje AB, Kök & Badmiljö i Stockholm AB and Svane Logistik Center A/S. The total value of acquired assets and liabilities, purchase price and effect on the Group's liquid funds was as follows:

	2004	2003
Intangible fixed assets	6,929	13,027
Tangible fixed assets	728	-
Inventories	2,060	-
Other current assets	7,210	-
Provisions	595	-
Current liabilities	-15,769	-
<b>Total purchase price</b>	<b>1,753</b>	<b>13,027</b>
Liquid funds in the acquired company	-261	-6,548
<b>Total cashflow relating to investments in subsidiaries</b>	<b>1,492</b>	<b>6,479</b>

## NOTE 40 INFORMATION ABOUT BALLINGSLÖV

Ballingslöv International AB, corp. ID no. 556556-2807, has its registered office in Ballingslöv, Hässleholm Municipality in Sweden.

The address of the company's head office is  
Ballingslöv International AB  
SE-281 87 Ballingslöv  
Sweden

The income statement and balance sheets will be submitted for adoption at the AGM on 14 April 2005.

Ballingslöv, 11 March 2005

Lars-Åke Helgesson  
Chairman of the Board

Bengt Dahl

Martin Svalstedt

Svend Holst-Nielsen

Ronny Nilsson

Fredrik Åtting

Aina Nilsson Ström

Håkan Eriksson

Nils-Erik Danielsson  
CEO and President

Our auditor's report was submitted on 14 March 2005.

Öhrlings PricewaterhouseCoopers AB  
Åke Christiansson  
Authorised Public Accountant

The Annual Report is available in Swedish and English. The English version is in all significant respects a translation of the Swedish report. In the event of any variances between the Swedish and English versions, the Swedish version applies.

# Audit Report

To the general meeting of the shareholders of Ballingslöv International AB (publ)  
Corporate Identity Number 556556-2807

We have audited the annual accounts, the consolidated accounts, the accounting records and the administration of the board of directors and the managing director of Ballingslöv International AB for the year 2004. These accounts and the administration of the company and the application of the Annual Accounts Act when preparing the annual accounts and the consolidated accounts are the responsibility of the board of directors and the managing director. Our responsibility is to express an opinion on the annual accounts, the consolidated accounts and the administration based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in Sweden. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual accounts and the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the accounts. An audit also includes assessing the accounting principles used and their application by the board of directors and the managing director and significant estimates made by the board of directors and the managing director when preparing the annual accounts and consolidated accounts as well as evaluating the overall presentation of information in the annual accounts and the consolidated accounts. As a basis for our opinion concerning discharge from liability, we examined significant decisions, actions taken and circumstances of the company in order to be able to determine the liability, if any, to the company

of any board member or the managing director. We also examined whether any board member or the managing director has, in any other way, acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association. We believe that our audit provides a reasonable basis for our opinion set out below.

The annual accounts and the consolidated accounts have been prepared in accordance with the Annual Accounts Act and, thereby, give a true and fair view of the company's and the group's financial position and results of operations in accordance with generally accepted accounting principles in Sweden. The statutory administration report is consistent with the other parts of the annual accounts and the consolidated accounts.

We recommend to the general meeting of shareholders that the income statements and balance sheets of the parent company and the group be adopted, that the profit for the parent company be dealt with in accordance with the proposal in the administration report and that the members of the board of directors and the managing director be discharged from liability for the financial year.

Ballingslöv, 14 March 2005

Öhrlings PricewaterhouseCoopers

Åke Christiansson  
Authorized Public Accountant

# Company management

Ballingslöv, which dates back to 1929, was acquired by EQT from the Electrolux Group in 1998, after which the share was launched on the Stockholm Stock Exchange's O-list on 19 June 2002. The vision of the Board of Directors and company management is to build and develop Ballingslöv to become one of the leading kitchen manufacturers in Europe. Since 1998 net sales have effectively doubled to a level of MSEK 1,3000, and the profit (operating profit before goodwill amortisation) has trebled to MSEK 153.

The vision, strategy and objectives are reviewed by the Board every year. Apart from the dividend policy, which will be discussed later, the rest of the company's direction remains essentially as it was when presented in the Stock Exchange prospectus of 2002.

## **The Board's activities**

The Board consists of seven members elected by the AGM, two employees' representatives and two deputies for the employees' representatives. Five of the members elected by the AGM are independent of the major shareholders, and all members elected by the AGM have undergone the Stockholm Stock Exchange's training programme. The Managing Director is a member of the board. The meetings are held primarily in Ballingslöv, but at least once a year at one of Ballingslöv's other business locations. During the year Ballingslöv International AB held nine meetings at which minutes were kept. In addition to the usual reviews of strategy, objectives, investments, year-end reports, etc., in 2004 the Board devoted time to matters such as the acquisition of Svane in Denmark, the Group's current and future distribution structure, and the potential for integration between the various companies in the Group.

At every meeting (part of meeting) there is a contribution from at least one function manager or subsidiary manager to present his or her areas of responsibility. Against the background of certain problems in the UK business, particularly during 2003, the improvement programme and developments at the UK business were discussed at several meetings during 2004.

The Board has created a compensation committee comprising representatives of the major shareholders and the Chairman of the Board. The committee's task is to draw up a proposal of the total compensation package for company management in order that the Board can reach a decision.

Before the Stock Exchange launch, over 35 people in managerial positions owned convertibles and options in the company. These were converted into shares in conjunction with the Stock Exchange launch. Since then no new schemes of this nature have been initiated, which means that at present there are no option, convertible or share schemes in operation in Ballingslöv.

No special "audit committee" has yet been set up, as the entire Board has acted as one. The company's auditor attends at least one meeting every year, when a review of audit work takes place. The Chairman of the Board also maintains contact with the company's auditor on various matters. A more detailed evaluation of the Board's work than in previous years has been undertaken and reported back to the Board, and the evaluation has been submitted to the members of the company's nomination committee ahead of Board nominations for the 2005 AGM.

## **Dividend policy**

When the company's shares were launched in 2002 the dividend policy was formulated as follows: "The Board intends to pay a dividend of around 50 per cent of net income after taxes over an economic cycle. However, consideration will be given to the company's financial status, cashflow, investment needs and expected future profitability."

In 2002 and 2003 dividend payments as a percentage on net income totalled 37.8 per cent and 45.7 per cent respectively. The dividend payment now proposed of SEK 3.25 per share corresponds to 45.7 per cent of net income. With the new IFRS rules, in which goodwill is not amortised, for Ballingslöv this corresponds to a dividend payment of about one third of net income before taxes. It is the Board's intention to be able to remain at around this level.

# Board of Directors and auditors



**Lars-Åke Helgesson**  
Chairman, born 1941.  
Board member since 1998.  
Managing Director of Marinus Företagskapital i Bromma AB. Other significant board positions: Chairman of the Board at Generic Systems Sweden AB, Translink Holding AB and the Swedish Academy of Directors, board member at the British/Swedish Chamber of Commerce, Klippan AB, Crane AB, Royal Swedish Academy of Engineering Sciences, LKAB and Axel Christiernsson AB.  
Holding in Ballingslöv: 77,000 shares



**Nils-Erik Danielsson**  
CEO and President, born 1944.  
Board member since 1998.  
Other significant board positions: Chairman of the Board at Kabe Husvagnar AB, board member at Anders Skooghs Byggnads AB, Bröderna Skooghs Förvaltnings AB and the Chamber of Commerce and Industry in Southern Sweden.  
Holding in Ballingslöv: 204,680 shares



**Bengt A Dahl**  
Board member, born 1949  
Board member since 2004.  
Working Chairman of the Board at Juvenis Merchant Partners AB. Other significant board positions: Chairman of the Board at the Fairford Group, Axel Christiernsson Int'l AB and Safegate Int'l AB, board member at Försäkringsaktiebolaget Nordisk Garanti, Emano AB and Norrskog Wood Products AB.  
Holding in Ballingslöv: 0 shares.



**Fredrik Åtting**  
Board member, born 1968.  
Board member since 1998.  
Partner in EQT Partners AB. Other significant board positions: board member at HemoCue AB, Nederman Holding AB and Bewator Group AB.  
Holding in Ballingslöv: 25,000 shares



**Svend Holst-Nielsen**  
Board member, born 1940.  
Board member since 1998.  
Other significant board positions: Chairman of the Board at HemoCue AB, S Reg AB, Lindab AB, Spendrups AB and Unilever AB, board member at Besthand AB and Wallgrund AB.  
Holding in Ballingslöv: 19,250 shares



**Aina Nilsson Ström**  
Board member, born 1953.  
Board member since 2003.  
Design Director at AB Volvo (Volvo/Renault/Mack). Other significant board positions: board member at Electrolux AB, Beckmans Skola AB and the Finnish/Swedish Design Academy.  
Holding in Ballingslöv: 200 shares



**Martin Svalstedt**  
Board member, born 1963.  
Board member since 2003.  
Managing Director of Stena Adactum.  
Other significant board positions: Chairman of the Board at Gislaved Folie AB and S-invest AB, board member at Gunnebo AB.  
Holding in Ballingslöv: 10,000 shares



**Ronny Nilsson**  
Board member (employees' representative), born 1956.  
Board member (employees' representative) since 1998.  
Holding in Ballingslöv: 0 shares



**Håkan Ericsson**  
Board member (employees' representative), born 1967.  
Board member (employees' representative) since 1999.  
Holding in Ballingslöv: 0 shares



**Lisbeth Klint**  
Deputy board member (employees' representative), born 1956.  
Deputy board member (employees' representative) since 1999.  
Holding in Ballingslöv: 200 shares



**Mats Tullgren**  
Deputy board member (employees' representative), born 1949.  
Deputy board member (employees' representative) since 2001.  
Holding in Ballingslöv: 0 shares

**Auditor**  
**Åke Christiansson**, born 1954.  
Authorised public account. Öhrlings PricewaterhouseCoopers AB. Auditor at Ballingslöv since 1998.

# Group management



**Nils-Erik Danielsson**  
CEO and Managing Director, Ballingslöv AB, born 1944.  
Holding in Ballingslöv: 204,680 shares



**Thomas Wuttke**  
Deputy Managing Director Ballingslöv AB, Purchasing Manager Ballingslöv AB, born 1969.  
Holding in Ballingslöv: 400 shares



**Rod Siddall**  
Managing Director, Kingfisher Wood Products Ltd., born 1951.  
Holding in Ballingslöv: 0 shares



**Mikael Jensen**  
Managing Director, dfi A/S, born 1974  
Holding in Ballingslöv: 0 shares



**Henrik Nørgaard**  
Managing Director, JKE Design A/S, born 1963.  
Holding in Ballingslöv: 27,000 shares



**Leif Glinborg**  
Managing Director, Multiform A/S, born 1949.  
Holding in Ballingslöv: 2,000 shares



**Bengt Liljenberg**  
Production Manager, Ballingslöv AB, born 1944.  
Holding in Ballingslöv: 19,000 shares



**Anders Düring**  
Group Controller, born 1965.  
Holding in Ballingslöv: 0 shares



**Olof Wigren**  
Finance Director, born 1950.  
Holding in Ballingslöv: 460 shares

# Definitions

## **Return on equity**

Net income after full tax as a percentage of average equity.

## **Return on capital employed**

Net income after net financial items plus financial expenses as a percentage of average capital employed. Capital employed means the balance sheet total minus non interest-bearing liabilities including deferred tax liabilities.

## **Return on total capital**

Net income after net financial items plus financial expenses as a percentage of average balance sheet total.

## **Gross margin (EBITDA margin)**

Operating income before depreciation as a percentage of net sales for the period.

## **Gross margin on net income**

Income after cost of goods sold after amortisation of group goodwill and other intangible fixed assets (relating to cost of goods sold) as a percentage of net sales for the period.

## **Gross profit margin**

Income after cost of goods sold as a percentage of net sales for the period.

## **Market capitalisation**

The share price at the year end multiplied by the number of shares.

## **Yield**

Dividend as a percentage of the share price at the year end.

## **Equity per share**

Equity divided by the number of outstanding shares at the year end.

## **Average equity**

Equity at the beginning and end of the financial year divided by two.

## **Average capital employed**

Capital employed at the beginning and end of the financial year divided by two.

## **Average total capital**

Total capital at the beginning and end of the financial year divided by two.

## **Net liability**

Net sum of interest-bearing liabilities and provisions minus interest-bearing assets including liquid funds.

## **P/E ratio**

Share price divided by net income per share.

## **P/E ratio excluding goodwill**

Share price divided by net income per share less goodwill amortisation and depreciation of other intangible fixed assets.

## **Interest coverage**

Net income after net financial items plus financial expenses divided by financial expenses.

## **Operating margin (EBIT margin)**

Operating income after depreciation as a percentage of net sales for the period.

## **Operating income before goodwill amortisation (EBITA margin)**

Operating income after depreciation excluding goodwill amortisation and depreciation of other intangible fixed assets as a percentage of net sales for the period.

## **Debt/equity ratio**

Interest-bearing liabilities divided by equity.

## **Equity/assets ratio**

Equity including minority interests as a percentage of the balance sheet total.

## **Dividend share**

Dividend as a percentage of the earnings per share at the year end.

## **Dividend per share**

Total dividend amount paid divided by the total number of shares.

## **Earnings per share**

Net income after tax divided by average number of shares.

## **Earnings per share excluding goodwill**

Net income after taxes excluding goodwill amortisation and depreciation of other intangible fixed assets divided by the average number of shares.

## **Profit margin**

Net income after financial items as a percentage of net sales for the period.

# Addresses

## **BALLINGSLÖV INTERNATIONAL AB**

Corporate identity number 556556-2807

### **The Group's head office**

281 87 Ballingslöv  
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Tel: +46 451 460 00  
Fax: +46 451 462 83  
[www.ballingslov.com](http://www.ballingslov.com)

## **BALLINGSLÖV AB**

### **Head office**

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Fax: +46 451 462 99  
[info@ballingslov.se](mailto:info@ballingslov.se)  
[www.ballingslov.se](http://www.ballingslov.se)

## **MULTIFORM A/S**

### **Head office**

Østerbro 13  
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Tel: +45 97 19 22 33  
Fax: +45 97 19 22 44  
[info@multiform.dk](mailto:info@multiform.dk)  
[www.multiform.dk](http://www.multiform.dk)

### **Sales office**

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Box 36  
125 21 Älvsjö  
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## **JKE DESIGN A/S**

### **Head office**

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Fax: +45 98 83 17 38  
[info@jke-design.dk](mailto:info@jke-design.dk)  
[www.jke-design.dk](http://www.jke-design.dk)

## **SVANE LOGISTIK CENTER A/S**

### **Head office**

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### **Sales office**

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Fax: +47 72 88 99 83  
[dromme@online.no](mailto:dromme@online.no)  
[www.drommekjokkenet.no](http://www.drommekjokkenet.no)

## **dfi A/S**

### **Head office**

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[www.dfi-as.dk](http://www.dfi-as.dk)

### **Sales office**

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[www.ballingslov.dk](http://www.ballingslov.dk)

## **KINGFISHER WOOD PRODUCTS LTD**

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