Annual report

Ekornes QM Holding 2019

Content

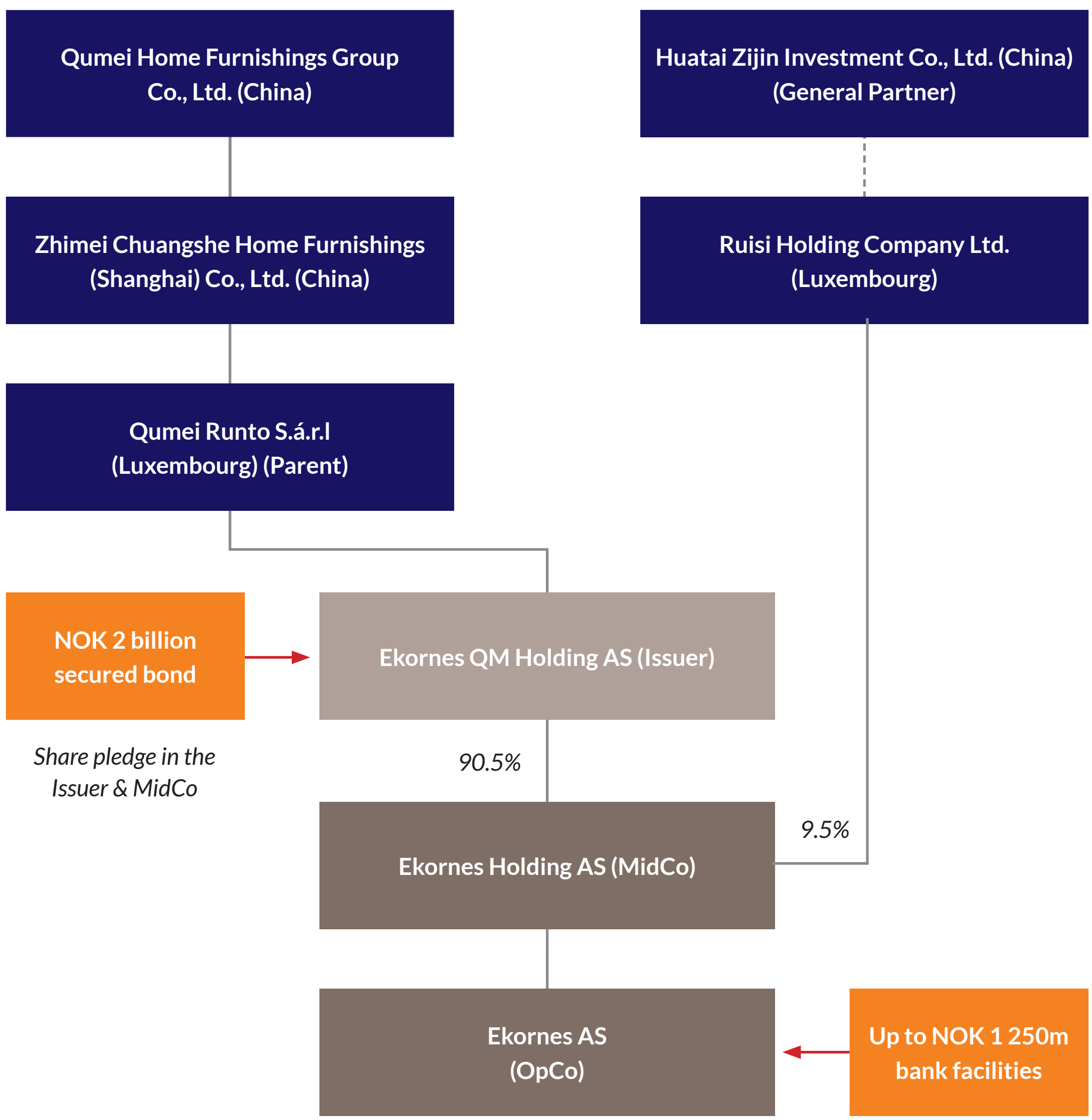
COMPANY HISTORY AND OWNERSHIP

Ekornes QM Holding AS was founded 4 January 2018 with the purpose of acquiring the Ekornes Group. In May 2018, an offer was made to purchase the shares of all Ekornes shareholders. The share purchase was completed in August 2018 and Ekornes AS was delisted from the Oslo Stock Exchange in October 2018.

Qumei Home Furnishings Group (90.5%) and Huatai Securities (9.5%), own the Ekornes Group through Ekornes Holding AS. The Norwegian ultimate parent company Ekornes QM Holding AS is a wholly owned subsidiary of Qumei Home Furnishing Group. Ekornes QM Holding AS owns 90.5% of the shares in Ekornes Holding AS. The Ekornes Group is the only operational part of the Ekornes QM Holding Group. The Ekornes Group is consolidated from the acquisition date.

The consolidated financial statements comprise the financial statements of the parent company Ekornes QM Holding AS and its subsidiaries as at 31 December 2019. As at 31 December 2019, Ekornes QM Holding AS has 90.5% shareholding and voting rights in Ekornes Holding AS, who in its turn has 100% owner share and voting rights for all other consolidated companies.

GROUP STRUCTURE AND BOND TRANSACTION OVERVIEW:



GROUP MANAGEMENT

ROGER LUNDE (1970)

Group CEO

Education: Master's degree in Management & Economics from Växjö University (Sweden).

Experience: CEO in Brødrene Dahl AS, Senior Vice President in Kongsberg Oil & Gas, Chief Operating Officer in Scatec Solar AS, Executive Vice President for Lean Banking in DNB, Senior Vice President Operations in Aker Solutions, Logistics Director in Emo AS/ Rich Andvord AS.

CEO of Ekornes since February 2020

PETER BJERREGAARD (1965)

EVP Commercial North America

Education: Bachelor Business Administration, Various management course Henley Business University.

Experience: EVP Commercial for Stressless® in North America since 2004 and from 2017 also for IMG in North America. Prior to this senior Vice President ECCO Shoes (Several positions within the ECCO Organization), General Manager Bang & Olufsen Chicago.

JAMES THOMPSON (1979)

SVP Commercial Director Europe

Education: BA Business Studies (University of South Wales), C. Dir (CGTI).

Experience: Managing Director of Ekornes Ltd since 2017, prior to this 20 years management experience in retail and hospitality, including Director at Sandals, Harrods and Heal's.

SVP Commercial Director Europe and MD Ekornes Ltd

MARK KELSEY (1974)

EVP Commercial Asia Pacific (APAC)

Education: BSc in Physics from Imperial College, London

Experience: More than 10 years at Ekornes (several positions including President Ekornes APAC and President Ekornes Asia), Country Manager UK & Ireland Fritz Hansen.

EVP Commercial Asia Pacific and a member of Ekornes group management since March 2020.

JAMES TATE (1978)

EVP IMG

Education: BSc (Macquarie University Sydney), Graduate Diploma in Management (University of London)

Experience: More than 10 years at Ekornes (various positions, including CEO for Stressless® UK/Ireland and Australia/New Zealand). Sales Director for Leggett & Platt Europe and furniture industry consultant.

President of IMG and a member of Ekornes group management since the autumn of 2017.

ROGER LUNDE (1970)

EVP Operations COO (until COO is recruited)

METTE TOFT BJØRGEN (1975)

EVP Finance CFO

Education: Masters of Economics and Business Administration at the Norwegian School of Economics (NHH).

Experience: CFO at Viken Skog SA, various positions within Portfolio Analysis, Strategy and Performance Management in Equinor (2003-2015), Investment Banking associate in Carnegie ASA.

CFO at Ekornes since October 2019.

ØYSTEIN VIKINGSEN FAUSKE (1978)

EVP HR and Digitalisation – CHRO & CDO

Education: Master's degree in Industrial Economy and Technology Management (Norwegian University of Science and Technology) High Potentials Leadership Program (Harvard Business School)

Experience: COO (Operating Director) Sopra Steria Business Consulting Scandinavia, various management roles at Sopra Steria (including Head of Operational Strategy and Improvement and Head of IT-Advisory). Over 10 years consulting experience.

Director for ICT and Digitalisation, and a member of Ekornes group management since April 2016. HR Director since 2017.

THE BOARD OF DIRECTORS IN EKORNES AS

Ruihai Zhao (1965), Chair

Position: Chair and CEO of Qumei Group

Education: MBA (Cheung Kong Graduate School of Business, China), degrees in global business management from Tsinghua University, China and University of Minnesota, USA.

Experience: Founder and chair of Qumei Home Furnishings Group, with more than 30 years' experience of the furniture industry.

Lars I. Røiri (1961), Vice-chair

Position: CEO of Flokk Holding AS

Education: Master of Economics and Business Administration (BI Norwegian Business School).

Board memberships: Director of Cappelen Holding AS, Glamox AS and the Norwegian Federation of Industries' Design Industry Association.

Experience: Commercial management positions at Tomra ASA, Mølnlycke AB and Jordan AS, CEO of Coloplast AS and HÅG ASA. Membership of the boards of numerous companies, including Molift AS, Netonnet AB, Enghav AS and Design & Architecture Norway, and of the Norwegian Advisory Board of the private equity company Ratos.

Stian Ekornes (1963), Director

Position: Investor

Education: The Norwegian Merchants Institute (today BI Varehandel).

Experience: 30 years' experience of the furniture industry. Extensive experience as CEO, board chair and director within the furniture industry, chain management and property development.

Atle Berntzen (1967), Director (employee elected)

Position: Team leader and deputy manager, warehouse/goods inwards at Ekornes Beds AS.

Education: Upper secondary school (commercial studies major).

Experience: Sales person and warehouse operative at General Motors AS. Warehouse operative at Ekornes Beds AS.

Sveinung Utgård (1962), Director (employee elected)

Position: Production manager Foam dept. at J.E Ekornes

Education: Electrical studies, Mechanical studies, Production and management studies, Nordvest Forum Changing Leadership course, Management development programme at J.E.Ekornes.

Board memberships: Employee-elected director of Møre Trafo AS, Municipal board member Sykkylven.

Experience: Production worker, Assembly operator at Formfin Møbler AS, Operator/electrical and manager at Møre Trafo AS. Shift leader at J.E.Ekornes.

Ove Per skåre, Director (employee elected)

Position: Work in upholstery department of J.E.Ekornes AS

Education: Diverse courses in Norwegian Confederation of Trade Unions.

Experience: Prodcution worker inVelledalen Møbler AS; Foam production in Porolon AS; Foam, steal and upholstery department in J.E.Ekornes AS; UN Veteran served in Lebanon; Union representative and health & safety representative in J.E.Ekornes AS; board member of the Trade Union (ITAF).

CODE OF CONDUCT

In December 2013, Ekornes published an updated version of its Code of Conduct and anti-corruption policy. Both of these are presented below.

Anti-corruption policy – UNs Global Compact

Ekornes has endorsed the UN Global Compact since 2009. Through participation in the UN Global Compact, Ekornes is committed to operating its business responsibly in line with the UN Global Compact's ten principles, which also cover anti-corruption. Ekornes also encourages its business associates to comply with these principles. Ekornes has drawn up a new system with which to assess its suppliers' performance against the Global Compact's principles. The system went into effect in 2013.

The UN Global Compact is based on openness, both with respect to the company's dealings with all stakeholders and the challenges Ekornes meets at the local and global level. Since 2012 Ekornes has been a member of the UN Global Compact's Nordic network. Participation in the network enables Ekornes to exchange experiences with other businesses which have social responsibility high on the agenda.

Through the UN Global Compact, Ekornes is obligated to set goals for and work continuously to improve its practices in this area. Each year Ekornes reports its performance to the UN in the form of a Communication on Progress (COP). This may be found on the company's website under ir.ekornes.no/environmental-and-social-responsibilities.

Ekornes will conduct its business activities responsibly, and will operate in compliance with all relevant laws, regulations and strict ethical norms. We support, and strive to live up to the UN's Global Compact. This means that in all parts of our operations we will maintain high standards with regard to:

1. Respect for and compliance with the Universal Declaration of Human Rights.
2. Respect for workers' rights and needs.
3. Environmental responsibility.
4. Combatting corruption in Norway and abroad.

This document, "Ethical Values and Anti-Corruption Policy", as well as "Objectives and Values", have been distributed to all employees. These regulations have also been distributed to external relations and have been published on the company's website www.ekornes.no. Everyone within the company has a duty to follow up and comply with these regulations. Managers in all parts of the company have a special responsibility for their follow-up.

Code of Conduct for the Ekornes Group

1. 'Objectives and Values', company regulations, employment contracts and job descriptions also contain ethical rules with which the Ekornes Group complies. The rules contained in this overview should therefore not be considered exhaustive with respect to the Group's ethical standards.

2. A duty of confidentiality contained in company regulations, employment contracts or job descriptions does not prevent you from informing a superior should you become aware of breaches of regulations, legislation or rules laid down by the authorities. This also applies to internal guidelines, provisions or issues that might harm Ekornes' reputation or other parties' trust in Ekornes.

3. Ekornes shall comply with the laws, rules and regulations in the countries in which Ekornes companies have been established or in which business connections have been established.

4. In all contact with suppliers of raw materials, machinery, subsidiary materials and services of any kind, and contact with customers and other business connections, we shall aspire to honesty, integrity, openness, as well as correct and responsible business conduct. The objective is to arrive at the best offer for Ekornes.

5. Ekornes or employees of Ekornes shall not take part in "bribery" or its equivalent in order to achieve special advantages or access to such.

6. Business connections such as those mentioned above shall not be furnished with more information about Ekornes than they need to provide a satisfactory offer with respect to price, level of service, delivery times, technology and specifications, or what they need to exercise their business relationship with Ekornes.

7. Suppliers and business connections shall under no circumstances receive information about other suppliers and business connections via Ekornes.

8. Employees of Ekornes shall participate in trips, dinners and events arranged by suppliers and business connections only when there is a professional reason for the event/trip or it provides business-related opportunities. In cases of such participation the travel, entertainment and accommodation of employees of Ekornes shall always be paid by Ekornes.

9. Employees of Ekornes are not permitted to receive benefits or gifts (in the form of products, services or trips, etc) from business connections other than small promotional items of limited value. The same applies to private purchases of goods at discounts from suppliers to Ekornes without the approval of a superior. Individuals must also avoid becoming in any way beholden to customers or suppliers.

10. Suppliers and business connections shall be made aware of the contents of this document and also be made aware that any attempt to contravene these ethical rules could result in exclusion.

Accounting and internal control requirements

Ekornes requires transparency in all operations. All Ekornes entities shall therefore ensure that transactions are correctly registered and supported by proper documentation in accordance with local and international accounting principles. Anti-corruption law requires that Ekornes has in place effective internal accounting controls and maintains books and records that accurately reflect the companies' transactions. All entities within the Group must correctly account for income and expenditures, and must ensure that payments are not recorded falsely in company books.

All expenses shall be approved under standard company procedures, documented and recorded in accordance with appropriate accounting standards.

Organisation and follow-up

This document, "Ethical Values and Anti-Corruption Policy", as well as "Objectives and Values", have been distributed to all employees. These regulations have also been distributed to external relations and have been published on the company's website www.ekornes.no. Everyone within the company has a duty to follow up and comply with these regulations.

Managers in all parts of the company have a special responsibility for their dissemination and follow-up.

In the autumn of 2018, a new vision "We improve everyday living" and a new set of values was adopted. The new values are Honest, Authentic, Enthusiastic and Adaptable. These were communicated to all employees through staff meetings, internal communications channels and eLearning courses.

ENVIRONMENT AND SOCIAL RESPONSIBILITY

The Ekornes Group has made quality furniture for over 80 years. Through a focus on long lasting quality, the overall environmental impact of the products is reduced. A sustainable Ekornes is an Ekornes which shares the value it creates between its shareholders, employees and the communities affected by its operational activities. Ekornes has implemented numerous measures at its factories which have lessened the company's environmental impact. New technologies, more environment-friendly materials and new product solutions have resulted in one of the most efficient manufacturing environments in the furniture industry today.

Sustainable production

Through engaging a sustainable production, the Ekornes Group will work to reduce the environmental impact of its products, measured over their entire lifespan. For Ekornes, a sustainable furniture is a furniture that is robust, durable and is only replaced by desire, not necessity.
A high-quality furniture will potentially have a high second-hand value.

In recent years, considerable resources have been devoted to increasing the focus on continuous improvement, and several improvement measures has been implemented in the production throughout 2019.

To adapt to market changes, Ekornes started in 2019 to produce its Stressless and IMG products with flame retardant free foam. Ekornes also produce a separate line of products with flame retardant to specific market with special requirements for flame retardancy.

Ekornes believes that measures that help to increase quality or reduce raw materials wastage, time and energy is a step in the right direction. For the Ekornes Group, and the furniture industry in general, reducing the amount of chemicals used is an important area. Ekornes works actively to reduce and replace chemicals in components such as furniture leather, foamed plastics, textiles, wood coatings and adhesives. The Stressless production facilities encourage and operate with production improvement proposal prizes, which is announced in the production management weekly.

Ekornes constantly work to ensure that the company's products do not expose consumers to potentially hazardous chemicals. At the same time, J.E. Ekornes works closely with its local company health service to assess chemical use and maintain a safe workplace.

Ekornes actively work to influence the industry and disseminate new knowledge. Ekornes plays a key role in the efforts of the Federation of Norwegian Industries (Design Industry) to promote quality and environmental work. The company also participates in other industry projects to ensure sustainable production and circular economy. Ekornes is a member of the Leather Working Group (LWG), an organisation promoting a sustainable value chain in the leather industry.

To achieve a sustainable manufacturing process, it is important to closely monitor and follow up the environmental performance. Ekornes' environmental policy is the foundation on which its environmental performance management rests.

Environmental policy

Ekornes has included core principles relating to the environment and corporate social responsibility in the document entitled “Objectives and Values”, which is available to all employees and other stakeholders. The following core principles have been adopted and apply throughout Ekornes:

- Ekornes shall be an environment-friendly company.
- Ekornes’ products shall have the smallest possible impact on the environment and pose no health risk.
- Ekornes aims to minimise the risk to health in the workplace.
- Ekornes invests to prevent damage to health and the environment.
- Environmental information shall be freely available, eg through environmental product declarations (EPD).
- Ekornes shall communicate factually and openly about the way it handles its environmental responsibility.

These principles are specified in further detail in a separate environment policy, and in targets for the Group’s various business units.

Environmental management

To act in compliance with the internal environmental policy, it is necessary to be aware of associated risks and opportunities in the value chain. Together with internal conditions, this provides a basis for the Group’s environment-related activities.

The Stressless production facilities are certified in accordance with the ISO 9001:2015 and the ISO 14001:2015 standards. The quality and environment work are followed up and verified through third-party audits.

Energy and heat

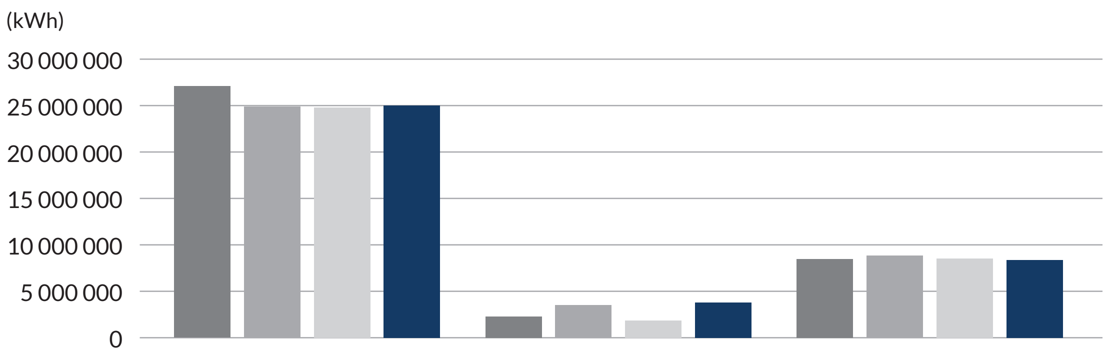
One of Ekornes’ environmental goals is to phase out fossil fuel oil in the heating of its factories by the end of 2020. Ekornes has throughout 2019 phased out fossil heating at the Aure facility. This factory is heated with wooden offcuts from own production and electricity.

In recent years, the company has upgraded the heating system at its Ikornnes facility to achieve this goal. Fossil fuel is currently used only for heating in particularly cold periods.

Ekornes also aims to reduce the electricity consumption at its Stressless production plants by 10 per cent by the end of 2020. In 2019 the facilities had a stable energy consumption. The Group’s Norwegian plants largely use bioenergy for heating. Woodchips, which is a by-product from the manufacturing process, constitute the primary energy source for heating at the factories on the northwest coast of Norway, while the Svane plant at Fetsund uses a combination of woodchips, electricity and gas. The factories in the USA, Thailand and Vietnam are less affected by ambient temperatures, and their energy consumption relates largely to their machine park. The use of daylight at the factories in Vietnam and Thailand has improved in the past year, which has reduced the need for artificial lighting. In recent years, the factory at Fetsund has switched to LED lighting in its premises, which has also reduced energy consumption.

In May 2019, IMG finalised its new factory in Lithuania. This facility has an A+ energy certification, based on its use of geothermal energy and its high level of insulation.

The graph below shows the Ekornes Group's consumption of electricity, woodchips, fuel oil and natural gas in kWh. The graphics illustrate a stable energy consumption with an increase in usage of fuel oil and natural gas. Fuel oil has been phased out at the latter years, and at the Aure facility during 2019. The increase is reflected on a higher usage of natural gas for heating.



	Electricity	Fuel oil and natural gas	Woodchips
2016	27 082 677	2 306 996	8 455 666
2017	24 875 823	3 505 178	8 866 734
2018	24 774 878	1 839 582	8 509 231
2019	25 007 005	3 796 291	8 382 934

Waste handling

Furniture production generates waste. Efforts to reduce the volume of waste and to increase recycling are therefore important. Ekornes sorts all its waste at source in such a way that the bulk of the waste is reused, recycled or used for energy recovery at its own plants. For the Svane and Stressless factories, sorting and recycling accounted for over 77 per cent of all recorded waste. This is a positive development from last year, when 75 per cent was recycled. Efforts are being made to convert the company's own waste into useful by-products that can be reincorporated into its manufacturing processes. The goal is to reduce the proportion of waste that cannot be exploited at its plants or recycled elsewhere down from approx. 2 kg per seat unit in 2015 to 1.5 kg by the end of 2020. In addition to reusing some by-products from production at Ekornes' own factories, other by-products can represent valuable raw materials for other enterprises. Hides are a valuable raw material, which Ekornes is continuously seeking to make maximum use of. Investments in modern technology have helped to reduce the volume of offcuts. Remaining leather offcuts are collected and sold to producers of small articles.

To achieve its waste-reduction target, Ekornes monitors the volume of waste from its production facilities. Efforts are also made to increase the individual employee's awareness in this area, so that everyone can contribute to target realisation. The table below shows the volume of waste in tonnes produced by the Group's facilities in Norway and the USA, and it is characterised according to the waste's value in use. The categories are landfill, mixed waste for energy recovery, wood for combustion at our own or external facilities, and reuse or recycling. Waste sent for reuse or recycling is waste that can be utilised by other parties.

Figures in tonnes per plant	**Ikornnes**	**Tynes**	**Aure**	**Grodås**	**Fetsund**	**Morganton**	**Total**	**Total %**
Landfill	0	0	1,44	0	10,2	0	**11,6**	**0,3%**
Mixed waste for energy recovery	338,6	62	18,64	108,0	0	152,3	**679,6**	**19,4%**
Wood for incineration at own or exter-nal facilities	1041,8	676,9	0	437,7	0	91,4	**2247,8**	**64,3%**
Reuse or recycling	327,3	23,4	20,77	6,8	22,3	59,8	**460,4**	**13,2%**
Hazard-ous waste/waste electrical items	93,9	0	0,96	0	0	2,7	**97,6**	**2,8%**
Total volume of waste from Ekornes plants excl. IMG	**1801,6**	**762,4**	**41,81**	**552,6**	**32,5**	**306,3**	**3497,1**	**100,0%**

Emissions

Ekornes strives for a total emission reduction for the group and its facilities. Transport is seen as a significant factor as the finished goods are transported globally. The Stressless segment has therefore focused on increasing the share of finished goods that are transported by sea, rather than by road. The goal is set for 70 per cent of all such transport to be carried out by sea, while 30 per cent goes by road. In 2019, 61 per cent of the global transportation were shipped by sea. Ekornes also produces emissions to air in connection with internal transport between the company's factories and in connection with business travel. This is emissions which is included in the total emission calculation for the group. Through the Group travel policy, Ekornes has paved the way for a reduction in business travel, which may lead to a reduction in the Group's greenhouse gas emissions.

Direct emissions to air from the manufacturing process are primarily generated by oil and solid fuel boilers. Three of Ekornes' Stressless factories are subject to licences granted by the local County Governor. There are also some emissions of diisocyanate gas and carbon dioxide from the production of foamed plastic at factories in Norway, Thailand and Vietnam.

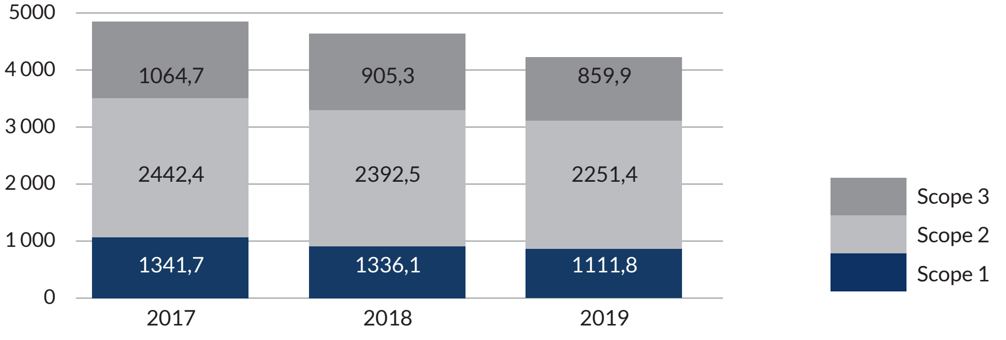
Stressless' main facility is located at Ikornnes close to Sykkylvsfjorden. The company has therefore made discharges to water as a measurable parameter. Ekornes shall not have any unwanted incidents resulting in discharges to water. The production processes involving water consumption are performed in closed-loop systems. Discharges to water are normally channelled through our own and local authority waste treatment facilities, or it is delivered to an approved recipient. In recent years, the IMG factories in Thailand and Vietnam have increased the recirculation of water from their surface coating facilities in order to reduce their overall water consumption.

In 2019, Ekornes' greenhouse gas emissions totalled an estimated 4 223 tonnes of carbon equivalents. This is a reduction of 8,9 per cent from last year.

Ekornes reports its greenhouse gas emissions in three "scopes". For Ekornes, emissions in Scope 1 (direct emissions) derive from internal transport, heating with natural gas and oil, as well as carbon dioxide released during polyurethane foam production. Scope 2 encompasses indirect emissions deriving from the generation of electricity by a third party. Scope 3 is associated with the treatment of waste, air travel and authorised business use of motor vehicles.

The table below shows a breakdown of annual emissions by "scope" and confirms a reduction in total greenhouse gas emissions from 2017 to 2019.

The Group's greenhouse gas emissions (tonnes CO_2 eq.)



Social responsibility

Through its participation in the UN Global Compact, Ekornes has undertaken to operate its business responsibly in line with the UN Global Compact's 10 principles covering human rights, anti-corruption, labour rights and the environment. This commitment is laid down in Ekornes' "Objectives and Values" document, as well as its Code of Conduct. The UN Global Compact is based on openness both with respect to dialogue and learning in relation to all the company's stakeholders and the challenges Ekornes is facing both locally and globally. A summary of the work done by Ekornes with respect to the environment and social responsibility is reported annually to the Global Compact in the form of a "Communication on Progress" (COP), and both underpins and complements the information provided in this annual report. The COP report is the Group's reporting pursuant to section 3-3c of the Accounting Act. Ekornes' COP is available from the Global Compact's website or the company's website http://ir.ekornes.com/environmental-and-social-responsibilities.

INTANGIBLE ASSETS AND PEOPLE

Ekornes is a competence-driven enterprise, which makes extensive use of advanced production equipment. This means that manufacturing processes, particularly in the Stressless® segment, are highly automated and make extensive use of industrial robots. Knowledge of brands and brand-building, as well as international marketing, are also key elements in the business.

Intangible assets:

The company's intangible assets comprise the following, among others:

- Registered trademarks (Ekornes®, Stressless®, IMG and Svane®)
- Registered domains
- Patents
- Registered designs
- International distributor network
- Market concepts
- Product concepts
- Industrial expertise
- International marketing
- International sourcing

With the exception of some patents and domains, these assets are not included in the company's balance sheet.

People

As at 31 December 2019, Ekornes employed a total of 2 287 people, of which around 50% were employed in Norway.

Ekornes recognizes that its employees are the group's most important resource. The Group therefore wishes to promote a healthy, safe and fair working environment, offering equal opportunities regardless of gender, ethnicity or religion, in line with prevailing legislation and regulations.

Ekornes' vision and values support fostering a culture of trust, fairness and inclusion. The values set a level of expectations to employees and their way of behaving cross cultural and ethnical differences. Ekornes will continue to build the "one Ekornes" culture globally through increasing the focus on diversity and inclusion going forward.

Training within Norway:

Craft apprenticeships continues to be a key area for Ekornes in Norway. In 2019, Ekornes was an approved training company within seven craft disciplines and employed 20 apprentices. During the year, ten people passed their final exams to become qualified craftsmen or women. Close cooperation with lower and upper secondary schools, as well as the various training offices, are important for maintaining the high quality of the vocational training provided. A number of training measures were implemented in 2019, both as a result of statutory requirements and to boost the Group's level of competence.

Ekornes has established a good dialogue with several university colleges in Norway and participates in numerous events at which business meets students. Over the past two years, Ekornes has staged a summer internship program for students from a variety of disciplines. The internship lasted for five weeks from June to August. During that time, the participating students were allocated a project to complete, and were given guidance by mentors in a variety of disciplines. A summer internship program offers the company an opportunity to showcase its operations, but also a chance for employees to learn and be challenged by young students.

HEALTH AND SAFETY

Ekornes gives a high priority to health and safety. Every year, the Group invests in measures to make its workplaces safer and to reduce the amount of physically strenuous work processes.

In 2019, efforts to automate a variety of work processes continued. This has led to a further reduction in the amount of manual and physically arduous operations.

Special requirements

Ekornes has facilities for the production of foamed plastic at J.E. Ekornes AS's Ikornnes plant and at Ekornes Beds AS. Isocyanates, which are hazardous to health, are used in connection with the production of foamed plastic. Both facilities have the capacity to store over 100 tons of toluene diisocyanate and are therefore subject to major accident regulations. Safety reports are prepared at both sites. These are regularly updated and submitted to the authorities in accordance with the major accident regulations. The companies have emergency response plans that are designed to address the issues described in their safety reports. The regulatory authorities perform annual inspections of both plants, and both meet existing environmental regulations.

Health

The Group had a sickness absence rate of 3.2% in 2019, a 0.2 percentage point increase from 2018.Long-term sickness absence (over 16 days) accounted for the bulk of the sickness absence. In the Norwegian part of the Group, efforts related to the Inclusive work life scheme, the workplace rehabilitation committee and individual follow-up have been implemented with a view to reducing sickness absence.

Safety

Ekornes gives high priority to the safety of its workforce and aims for zero work-related personal injuries. The Group is working actively in the areas of prevention and emergency preparedness to reduce the number of personal injuries incurred. There were 18 lost-time injuries in 2019, up from 11 injuries in 2018. This gives an H1-value for the period of 4.0, compared to 2.6 the year before.

Industrial safety – emergency preparedness

All the Norwegian factories have an organized industrial safety capability. Emergency response plans are drawn up at each factory. The necessary drills and training have been carried out at all facilities.

Inclusive Working Life

Ekornes has Inclusive work life agreements for all Norwegian entities for the period 2019–2022. The Inclusive work life scheme stems from a tripartite agreement between employers' organizations, trade unions and the government, to make it possible for everyone who is able and willing to work.

The Board of Directors

THE BOARD OF DIRECTORS

Ruihai Zhao (1965), Chair

Position: Chair and CEO of Qumei Group

Education: MBA (Cheung Kong Graduate School of Business, China), degrees in global business management from Tsinghua University, China and University of Minnesota, USA.

Experience: Founder and chair of Qumei Home Furnishings Group, with more than 30 years' experience of the furniture industry.

Mogens Falsig (1950), representitative of Qumei, Europe

Position: Board member and CEO of Ekornes QM Holding AS and Ekornes Holding AS

Education: PhD in Chemistry, University of Aarhus, Denmark

Experience: More than 25 years' experience in Furniture industry.

REPORT OF THE BOARD OF DIRECTORS

Ekornes QM Holding AS was founded 4 January 2018 with the purpose of acquiring the Ekornes Group. In May 2018, an offer was made to purchase the shares of all Ekornes shareholders. The share purchase was completed in August 2018 and Ekornes AS was delisted from the Oslo Stock Exchange in October 2018.

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The consolidated financial statements comprise the financial statements of the parent company Ekornes QM Holding AS and its subsidiaries as at 31 December 2019. As at 31 December 2019, Ekornes QM Holding AS has 90.5% shareholding and voting rights in Ekornes Holding AS, who in its turn has 100% owner share and voting rights for all other consolidated companies.

Nature of the business and strategy

Ekornes owns and manages the brands Stressless®, IMG, Svane® and Ekornes®, and markets these through selected distributors in many countries.

Sales primarily targets the home furnishings market, where Stressless® and IMG are marketed globally, while Svane® is marketed in the Nordic region and selected markets in Northern Europe.

Stressless® is currently the most well-known furniture brand in Europe. Over 85 million people recognize the brand worldwide. Stressless® is the Group's premium segment brand, and investments are being made to expand consumer awareness of the brand name. IMG's goal, on the other hand, is to build up a strong brand awareness among furniture distributors, where it is positioned in a more reasonably priced segment of the market than Stressless®.

The Group sells all its brands through selected distribution partners. These are primarily furniture chains and independent retailers, but other relevant distribution channels are also deployed.

The Group's corporate headquarters is located at Ikornnes in Sykkylven, Norway. The Group has sales offices in Norway, Denmark, Finland, Germany, the UK, France, the USA, China, Japan, Thailand, New Zealand and Australia. Production takes place at ten factories in Norway (5), Thailand (1), Vietnam (2), the USA (1) and Lithuania (1).

As at 31 December 2019, Ekornes employed a total of 2 287 (2 147) people, of which around 50% were employed in Norway.

Financial performance

Ekornes QM Holding AS (group) generated operating revenue of NOK 3 169.0 million in 2019. Underlying sales revenue from the Stressless® segment was NOK 2 402.4 million, revenue from IMG was NOK 551.4 million while revenue from Svane® amounted to NOK 215.2 million.

Development in Ekornes' main markets for Stressless® in Europe and North America have been weak throughout 2019. However, during the last part of 2019, the company experienced increased order receipts, indicating improvement entering 2020.

In 2019, research and development costs totaling NOK 35.0 million (NOK 18.6 million in 2018) were recognized in expenses. These costs relate to salaries and other expenses, as well as the depreciation of capitalized R&D costs. Costs directly associated with the development of a fixed operating asset are included in the capitalized value of the asset if all the criteria for capitalization have been met. Expenses that arise early in the project phase, as well as maintenance costs, are recognized in expenses as they arise. The Group did not capitalize development costs in 2019 (NOK 5.4 million in 2018).

EBIT for the full year 2019 totaled NOK 235.0 million, corresponding to an EBIT margin of 7.4%. Earnings were impacted by the softening markets for Stressless® and planned one-off costs related to operational reorganizations within IMG.

Net financial items were negative NOK 107.6 million for 2019. Financial expenses amounted to NOK 213.6 million for the period, partly compensated by net gains on foreign exchange of NOK 73.8 million.

Profit before tax for the year came in at NOK 127.4 million. Tax amounted to NOK 26.7 million, which gave a net profit of NOK 100.6 million for 2019.

Cash flow

Net cash flow from operating activities in 2019 was NOK 371.0 million, driven by group underlying operational performance. This was partly offset by paid tax of NOK 101.9 million and an increase in net working capital* of NOK 25.6 million during the period.

Net cash flow from investing activities during the year amounted to NOK 95.2 million, all related to ongoing investments in day-to-day operations.

Net cash flow from financing activities during the year was negative NOK 75.9 million. Following the bond issuance in April 2019, long-term debt increased by NOK 1 981.5 million. This was mainly offset by reductions in internal loans of NOK 1 897.6 million. Payments of lease liabilities and changes in short-term debt to credit institutions amounted to NOK 36.5 and NOK 111.9 million respectively.

Net change in cash and cash equivalents was positive by NOK 200.0 million during the year, and as at 31 December 2019 total holding of cash and cash equivalents amounted to NOK 312.8 million.

The board considers the Group's liquidity position to be satisfactory.

*Working capital = trade receivables + inventory – trade payables

Financial position

At the close of 2019, the Group's working capital totaled NOK 809.6 million, compared with NOK 781 million the year before. During the period, inventory rose by NOK 18.2 million, while receivables increased by 2.4 million. Trade payables was reduced by 8.2 million.

As at 31 December 2019, Ekornes had total assets of NOK 7 435.7 million, compared with NOK 7 323.9 million the year before.

Total interest-bearing debt amounted to NOK 2 481.6 million.

Ekornes has short-term credit facilities with DNB and Sparebanken Møre of NOK 500 million and NOK 250 million respectively, of which NOK 750.0 million were available at 31 December 2019.

Ekornes has also a long-term borrowing agreement with DNB. The loan of NOK 500 million is unsecured. No instalments are payable before maturity in September 2022. Interest expenses are paid quarterly.

In April 2019, Ekornes QM Holding AS issued a stock exchange bond to refinance the Ekornes QM Holding Group. As a result, the loan from Qumei Runto S.A.R.L. to Ekornes QM Holding AS of NOK 1 832,4 million including accrued interest as of 31 March 2019, was paid in full in April 2019.

The bond agreement is subject to a set of financial covenants, including a minimum liquidity of NOK 125 million and a maximum leverage ratio currently at 5.25. The covenants are measured quarterly on 12 months rolling basis for Ekornes QM Holding Group.

The loan agreement with DNB is subject to a set of financial covenants, including a minimum equity ratio of 30% of total consolidated balance and maximum NIBD/EBITDA ratio of 3.5. The covenants are measured on a 12-months rolling basis for Ekornes group.

During 2019 and at 31 December 2019, the group was compliant with all covenants under the bank- and the bond agreements. The bond agreement also includes restrictions on dividend payments from the issuer, and Ekornes QM Holding AS is not in position to distribute any dividends.

Unrealized forward contracts had a negative value of NOK 2.6 million at the close of the year, compared with negative NOK 23.6 million at the close of 2018.

As at 31 December 2019, the Group had an equity ratio of 46.4 per cent, up 3.6 percentage points from the close of 2018.

Dividend

There will be no dividend pay-out for the financial year ended December 31 2019.

Allocation of net profit

It is proposed that the company Ekornes QM Holding AS's net profit for the year, in the amount of NOK 39.3 million be transferred to other equity. The company's equity and liquidity are deemed to be satisfactory.

Going concern

In accordance with section 3-3 of the Norwegian Accounting Act, it is hereby confirmed that the financial statements have been prepared on the assumption that the entity is a going concern. The board considers that the annual financial statements for Ekornes QM Holding AS and the Group provide a true and fair picture of the company's results for the 2019 financial year and the company and Group's financial position at the close of the year.

Risk exposure and risk management

Market and business risk

The Group seeks to develop products and concepts that can provide international market opportunities. Distribution of sales across several markets offers possibilities for continued growth, at the same time as it spreads market risk and reduces the Group's dependence on individual markets and individual customers. The Group's business risk relates to economic cycles, market conditions, political and legislative changes and changes in the competitive climate, as well as the general pattern of consumption in the markets in which it operates. The Group competes in a fragmented international market, with many players on both the production and the distribution side. The most significant structural changes with respect to the players' size have been, and remain, on the distribution side. In several markets, the extensive formation of retail chains has taken place. Online selling is also changing the distribution environment to a greater and greater extent. With respect to furniture manufacturing, a growing proportion takes place in low-cost countries in Europe and Asia. Ekornes is aware of the challenges these changes entail and seeks to respond through continuous improvements in its production processes, sourcing, market concepts, product development and business relations.

Financial risk

Financial risk for the Group relates primarily to fluctuations in exchange rates (the NOK against other countries' currencies) and to credit risk, i.e. the ability of the Group's customers to pay what they owe.

Foreign exchange risk

The Group's competitiveness is over time affected by movements in the value of the NOK in relation to other currencies. The Group sells its products internationally and bills its customers largely in the respective countries' domestic currencies.

The Group's manages all matters relating to foreign currencies and foreign exchange risk from its head office. Currency hedging is an integrated part of the operational activities. As part of the Group's efforts to reduce its currency risk/exposure, it also seeks to purchase goods and services for use in Norway from abroad, where this is cost-effective. This combined with the Group's distribution, sales and marketing activities, along with the associated administrative organization required, provides a natural operational hedge for the exchange rate risk (natural hedging) associated with part of its cash flow.

In addition to natural hedging, the Group makes use of forward contracts for further currency hedging. This does not reduce the long-term foreign exchange risk but provides predictability within the hedging period.

Customer and credit risk

The Group's customers are largely furniture retailers, has more than 4,000 customers, with the largest grouping of stores accounting for around 5 per cent of sales revenues. The largest individual customer represents around 3.7 % of total revenues. The Group's customer and credit risk is considered low. Trade receivables are followed up on an ongoing basis, to detect payment irregularities and limit bad debts.

Interest rate risk

The Group's interest rate risk is associated with both short-term and long-term borrowings, as well bonds issued in April 2019. Loans at floating interest rates constitute an interest rate risk for the Group's cash flows.

The Group has a stable financial structure. Lenders are well-reputed Norwegian banks.

Operational risk

At any given time, the Group is exposed to the risk of unforeseen operational problems, which may lead to higher operating costs and lower earnings than predicted and expected. To reduce the financial consequences of unforeseen events, the Group has insurance covering losses deriving from major incidents or lengthy business interruptions.

To ensure operational efficiency, the Group has good systems and routines for maintenance, training and quality assurance – all factors which help to reduce the risk of operational non-conformances. IMG is considered to represent a slightly higher operational risk than Stressless® production.

Supplier risk

An important element in the Group's strategy for ensuring efficient operations is reliable access to raw materials and other input factors of consistent quality. It seeks to always have at least two or three actual or potential suppliers for its strategically most important input factors. In some cases, however, this is neither possible nor expedient. The objective is nevertheless that sole-supplier situations should be the exception, and preferably be avoided altogether.

Segments and markets

The division into product areas is based on the Group's management and internal reporting structures and coincides with the division into segments.

Stressless®

The overall market situation for Stressless® has been difficult throughout 2019, however, with some signs of improvement during the fourth quarter. Full year operating revenue for Stressless® ended at NOK 2 402.4 million. EBIT came in at NOK 209.0 million, corresponding to an operating margin of 8.7%.

The general development in European furniture markets is increasingly driven by price incentives and promotional activities. In Germany, one of Stressless®' main European markets, the economy has stagnated with a corresponding weak furniture market and the UK market has been negatively affected by the Brexit uncertainty. In the US, the overall economy showed in 2019 signs of slowing down, with similar adjustments of consumer spending.

In addition, Stressless® has over time lost market shares to motorized products, which gradually have been an increasingly important feature in new sofas and recliners. Stressless® sales in Southern Europe and North America were down 9% and 5% respectively compared to the year before, while sales in Central Europe were down 2%.

Ekornes has a clear strategy to improve Stressless®' performance, and core priorities to improve commercial conditions include product development and innovation, optimized distribution, closer customer partnerships and targeted market initiatives with updates and relevant customer offerings.

In 2018, Stressless® Dining was well received when introduced to select markets in the Nordics, Europe and the US. Throughout 2019, new ranges of motorized products have been developed. The first collection of motorized Stressless® sofas was launched in Europe and the US during the fourth quarter, and reception has been good. Moving into 2020, early orders from upcoming collections are promising and these new products are expected to contribute positively to sales going forward. Furthermore, to give a more updated and contemporary display of the Stressless® products, Ekornes has initiated the roll out of its new Studio Concept (shop-in-shop) in select markets.

Stressless® revenues from the Chinese market are promising, and 2019 sales were up 60% from 2018, although from a low level. The distribution in China is based on a mono-brand concept, with stores exclusively selling Stressless®products. At the end of 2019, there were 83 Stressless® stores in the Chinese market. Ekornes has ambitions to significantly expand its dealer network, primarily by utilizing the dealer network of Ekornes' main shareholder, Qumei Home Furnishing Group. Qumei products are currently distributed through more than 800 independent dealers, of which a significant share already has indicated interest in distributing Stressless® products.

In addition to sales promotional initiatives, Ekornes has a relentless focus on cost reduction initiatives to strengthen competitiveness and profitability.

IMG

IMG delivered growth in both revenue and order receipts in 2019. Earnings were impacted by planned one-off costs related to operational reorganizations in Asia and the commencement of the operations in Lithuania.

Operating revenue for 2019 was NOK 551.4 million. During the year, IMG successfully launched private label concepts and commenced operations in Lithuania, and experienced growth both on new platforms and in new markets.

The operating result (EBIT) for the year was NOK 49.3 million and an operating margin 8.9%. The earnings reflect a change in product mix when entering new markets, planned one-off costs related to operational changes in Vietnam, increased production capacity in Thailand, in addition to higher costs associated with the commencement of the Lithuanian production and distribution center. In addition, the result was impacted by currency effects from a strengthened US dollar towards NOK.

In Europe, IMG saw growth in both revenue and order receipts in the last part of 2019. The order receipts increased by 33% year-on-year, mainly driven by the opening of the Lithuanian facility, a core priority to strengthen distribution and product range for the European market. The new facility allows IMG to offer high-quality collections with 6-8 weeks' lead time. The initiative has already given good results, especially in the Scandinavian markets.

In Asia-Pacific, the order receipts were somewhat mixed. The positive developments in traditional IMG markets continued, whilst new markets were softer. IMG revenue from China increased from NOK 2.6 million to NOK 43.4 million in 2019. The operational initiatives in Thailand and Vietnam are beginning to yield results and are expected to contribute positively to sales going forward.

Developments in North America were positive during the last part of 2019, with strong revenue and order receipts. During the period, IMG successfully opened its new warehouse and operations facility in California, ensuring necessary capacity for continued growth in new regions in the US.

IMG order receipts for 2019 amounted to NOK 568.6 million, up 11% from 2018. The increase was mainly driven by solid underlying growth, in addition to positive currency effects. For the fourth quarter, order receipts increased 17% year-on-year.

Svane®

Efforts to improve the Svane® segment's operational efficiency and profitability have been underway for some time, with focus on brand renewal, production optimization and costs reductions.

Especially in the Norwegian and the German markets, Svane® had a strong development driven by successful campaign programs and the promising launch of a new collection. Operating revenue for 2019 was NOK 215.2 million, up 6% from the year before. Accumulated for the year, segment EBIT was negative at NOK 10.0 million.

Production

On the whole, capacity utilization at the Stressless® factories was satisfactory in 2019. Production at IMG and Svane® was normal through the year.

Stressless® has a design capacity of 1 450 seats per day. However, the design capacity varies with the number of models being produced and will also be affected by the production of new models as they normally will have a longer production time in the beginning. Production capacity may be increased by increasing the number of employees. This Applied to Stressless®, IMG and Svane®.

Related parties

The Group's related parties comprise members of the board and management, as well as companies those individuals control or have a significant influence over.

Ruihai Zhao, who chairs the board of directors, is one of the primary shareholders of Qumei Home Furnishings Group. IMG sells furniture in the Chinese market through Qumei's stores in China. The agreement regulating these transactions has been entered into at market terms and on the basis of the arm's length principle.

With the understanding of the board of directors, board member Nils Gunnar Hjellegjerde (he was director in Ekornes AS until 9th May 2019), who has particular expertise in the area of product and market development in the furniture sector, acted as an hourly paid consultant to the group management. Mr. Hjellegjerde also has shares in Hove D.K. Co., Ltd. (Thailand), which supplies laminate products to Ekornes AS's subsidiary IMG Group AS, of which he was the main shareholder until the company was sold to Ekornes AS in 2014. The agreement in question expired in the end of second quarter 2019 and was at market terms and based on the arm's length principle.

Ekornes AS has bought the old house that belonged to the Ekornes founder Jens E. Ekornes. The house is bought from the legal entity "Jens og Petrine Ekornes Minne AS". Stian Ekornes, director in Ekornes AS, owns 34% of the legal entity. The agreement regulating this transaction has been entered into at market terms and on the basis of the arm's length principle.

Ekornes QM Holding AS had a loan from its shareholder Qumei Runto S.A.R.L. In April 2019, Ekornes QM Holding AS issued a stock exchange bond to refinance the Group. As a result, the loan from Qumei Runto S.A.R.L. to Ekornes QM Holding AS of NOK 1 832,4 million including accrued interest as of 31 March 2019, was paid in full in April 2019. The agreement regulating this transaction was entered into at market terms and on the basis of the arm's length principle.

No other material transactions with related parties took place during the reporting period.

H&S

Ekornes gives high priority to the safety of its workforce and aims for zero work-related personal injuries. The Group is working actively in the areas of prevention and emergency preparedness to reduce the number of personal injuries incurred. There were 18 lost-time injuries in 2019, up from 11 injuries in 2018. This gives an H1-value for the period of 4.0, compared to 2.6 the year before.

The Group had a sickness absence rate of 3.2% in 2019, a 0.2 percentage point increase from 2018.

Organization and corporate social responsibility

Ekornes recognizes that its employees are the company's most important resource. The Group therefore wishes to promote a healthy, safe and fair working environment, offering equal opportunities regardless of gender, ethnicity or religion, in line with prevailing legislation and regulations.

The Group has endorsed the UN Global Compact since 2009. It therefore has a duty to integrate the Global Compact's 10 principles into its business strategy and promote those principles with respect to its workforce and business partners. In 2014, Ekornes drew up a new code of conduct encompassing general principles for ethical business practice and personal behaviour, as well as corporate social responsibility, that form the basis for the attitudes and values underpinning the Group's corporate culture. These are reproduced in extenso in the chapter entitled "Code of Conduct for the Ekornes Group" in the 2019 annual report.

An account of how these principles and guidelines are integrated into the Group's business strategy, day-to-day operations and relations with its various stakeholders, is included in in the 2019 annual report. See chapter with "Environment and Corporate Social Responsibility".

Furthermore, The Group attaches considerable importance to environmental protection, and has drawn up a separate environment policy which is set out in the document "Objectives and Values", available from ir.ekornes.no/environmental-and-social responsibilities.

Change of leadership for ekornes

Roger Lunde is appointed new CEO of Ekornes to succeed Olav Holst-Dyrnes, who has led the Norwegian furniture group for six years.

Roger Lunde assumed his new position on 24 February 2020. The new CEO has extensive operational and management experience from international industrial and commercial activities. He comes from the position of CEO of Brødrene Dahl AS. Roger Lunde holds a degree in economics and has previously held management positions in several international groups with Norwegian roots, including the Kongsberg Group, Scatec Solar, DNB and Aker Solutions.

Olav Holst-Dyrnes, who now resigns, has served as CEO for six years. He has led Ekornes through a demanding and successful restructuring and through the change of ownership, which in 2018 resulted in Qumei Home Furnishing Group becoming the company's main shareholder.

Shares and shareholders

At the close of 2019, Ekornes QM Holding AS had a total of 30 000 outstanding shares, all of which were held by one shareholder. The company's ultimate owner is Qumei Home Furnishing Group, with 100% ownership.

Subsequent events

People first

Ekornes is working extensively to manage the impact of the COVID-19 pandemic, prioritizing the safety of employees, channel partners, suppliers and other partners. As at 1 April, none of the employees have been diagnosed as infected. The Group has implemented safety measures across its facilities including quarantine of components from high-risk countries, prohibiting external visitors, more separate working areas and home office for relevant personnel. In addition, Ekornes ask all employees to adhere to local national health authorities' restrictions and guidelines.

The Group is also contributing with support in the crisis. The Ekornes production plant at Morganton in North Carolina, USA, produces medical supplies and the production plant at Ikornnes will produce infection control equipment in April.

Current business

In recent weeks, Ekornes has experienced accelerated temporary shutdowns in dealer networks in key markets in Europe and North America. Some dealer networks in countries in Europe and Australia remain partly open. However, markets in Southern Europe, the UK and New Zealand are temporarily closed. In the US, the situation varies from state to state, but a large part of the dealer network is closing down. Asia, led by China, has reopened and Ekornes sees more orders from Asia as the traditional markets close. To address the situation, Ekornes has adjusted capacity, aligning operational activity to lower demand and order reserve.

Inbound and outbound logistics remain operational across borders. However, as local distribution channels, mainly shops, close, Ekornes will evaluate other options to ensure deliveries to customers, including direct end-user deliveries if possible. The Group has expanded the eCommerce platform into new markets and is establishing live streaming services to reach customers when stores are closed.

Impact on sourcing of raw material is limited and the situation for Ekornes is for the time being regarded as satisfactory.

Financial position

At current, the softening demand in the second quarter of 2020 indicates a significant decrease in revenue and an associated negative impact on cashflow from operations. This may affect covenant compliance. However, Ekornes has a solid financial position with an equity ratio of 46% and cash holdings of NOK 313 million at year end. In addition, the Group has total undrawn short-term credit facilities of NOK 750 million. At the end of 2019, Ekornes had a total interest-bearing debt of NOK 2 482 million. Ensuring liquidity and financial solidity is a priority for the Group given the high uncertainty and limited market visibility, and the group has therefore implemented cost reduction initiatives and established contingency plans to reduce costs further should the evolving situation require the group to do so.

Workforce adjustments and temporary salary reductions

On 18 March Ekornes sent notice of lay-off to employees in Norway with effect until the end of May 2020. The layoffs were effective from 1 April for employees in production at J.E. Ekornes and from 23 March for administration at J.E Ekornes, Ekornes AS and Ekornes Scandinavia. The Group has also dismissed 30% of the personnel in its Asian production facilities, and initiated furlough for 70 employees in sales offices in Europe. The workforce adjustments have been implemented in preparation for the slowdown in demand due to the spread of the Covid-19 coronavirus. Nevertheless, Ekornes expects to keep production going, although at a reduced rate, to supply customers globally and amid signs of improvement in the Asian markets.

All personnel that are not laid-off, have agreed to a temporary salary reduction from 5%-10%. Top management has agreed to a 20% temporary reduction in salary for the lay-off period, including refraining from bonus in 2020. The Group has also made significant cost cuts and is in close dialogue with customers with a strict focus to follow up on accounts receivables.

Government support

Due to the significant impact of the pandemic, governments in many countries are offering packages as a relief or support to affected businesses. Such support includes shorter notice period for lay-offs and improved salary support for the employees, as seen in Norway and other European countries. Measures to strengthen liquidity by postponing VAT and other tax payments have also been introduced in several European countries, including Norway. These measures will have a mitigating impact amid the challenges that the Ekornes Group will face in coming months.

No other significant events

No other significant events have occurred between the balance sheet date and the date of publication of the financial statements which have materially affected the Company's financial position, and which should have been reflected in the financial statements here presented.

Outlook

Ekornes' long-term ambition is to grow revenues profitably and responsibly.

Due to weak overall development in important European markets and shift in market preferences towards product features outside the Stressless® portfolio, performance for Stressless® has not met ambitions. Combined with delays in IMG's expansion plans for Europe due to limitations in distribution power and product offering, Ekornes has experienced stagnation in both revenue and earnings growth in recent years.

To address these challenges, Ekornes has initiated a broad range of initiatives throughout the organization.

Within the Stressless® segment the main priorities are innovation and product development, improved distribution and strengthened customer relations and partnerships.

During 2019 the company introduced new features to existing products, matching new market preferences. This includes motorized sofas. The launch was well received in the market and early order receipts indicate a positive earnings contribution from this product line going forward.

To strengthen the presence and visibility of the Stressless® brand and products in retail stores, Ekornes has invested in new modernized in-store solutions replacing current in-store solutions that has been used for the last 10 years. During the year the new solutions were introduced and implemented among a broad range of Stressless® retailers. The program will continue going forward.

The main priority for IMG has been to expand its presence and strengthen distribution in the European market. The new production and distribution facility in Lithuania, opened in May 2019, will reduce IMG's time to market significantly and broaden the company's product range. The new facility has already provided good results in the Scandinavian markets and a similar development is expected for other European markets.

For Svane® the turnaround initiatives are giving positive results, generating positive earnings in the second half of 2019. The introduction of a new collection combined with campaign programs and additional cost reducing measures, is expected to improve the performance for Svane® going forward.

Oslo, 3 April 2020

The Board of Directors of Ekornes QM Holding AS

Ruihai Zhao Chair	Mogens Falsig Director and CEO

Ekornes QM Holding Group

Consolidated financial statements

CONSOLIDATED INCOME STATEMENT

(Figures in NOK 000)	Notes	Y 2019	4.1 - 31.12.2018
Operating revenues	1, 23	**3 169 006**	**1 131 180**
Cost of goods sold		845 614	320 219
Payroll expenses	2, 16, 17	937 749	303 950
Depreciation and write downs	8	289 468	82 680
Other operating expenses	5, 10, 17, 20, 21	860 609	350 162
Net other losses (gains)	22	605	12 842
Total operating expenses		**2 934 045**	**1 069 854**
OPERATING EARNINGS		**234 961**	**61 326**
Financial income and expenses			
Financial income	4	32 241	8 588
Net gains (losses) on foreign exchange	4	73 764	-27 207
Financial expenses	4	213 614	29 107
Net financial items		**-107 609**	**-47 726**
Earnings before tax		**127 351**	**13 600**
Tax expense	15	26 705	3 125
EARNINGS FOR THE YEAR		**100 646**	**10 475**
Earnings are attributable to:			
Controlling interests		79 409	6 285
Non-controlling interests		21 237	4 189
Basic earnings per share	13	3 354,86	349,15
Diluted earnings per share	13	3 354,86	349,15

The following notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(Figures in NOK 000)	Y 2019	4.1 - 31.12.2018
Earnings for the year	**100 646**	**10 475**
Other comprehensive income		
Items which may be reclassified to profit and loss		
Translation differences	50 237	20 065
Translation difference - net financing subsidiaries	184	515
Change in deferred tax - net financing subsidiaries	-41	-106
Total other comprehensive income	**50 381**	**20 473**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**151 027**	**30 948**

The following notes form an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET

(Figures in NOK 000)	Notes	31.12.2019	31.12.2018
ASSETS			
Non-current assets			
Buildings and sites	8	1 041 353	1 011 425
Machinery and equipment	8	309 787	322 205
Operating movables, fixtures	8	19 889	19 661
Assets under construction	8	16 615	89 071
Right-of-use assets	20	131 177	0
Total property, plant & equipment		**1 518 822**	**1 442 362**
Software and licences	8	47 844	49 296
Brand name	8	1 602 188	1 642 861
Goodwill	8	1 561 115	1 645 575
Customer relations	8	1 268 969	1 283 283
Deferred tax assets	15	66 887	81 718
Total non-current intangible assets		**4 547 004**	**4 702 733**
Other receivables and investments	7	16 869	19 167
Total non-current financial assets		**16 869**	**19 167**
Total non-current assets		**6 082 695**	**6 164 262**
Current assets			
Inventory	9	575 431	557 170
Trade receivables	10	381 933	379 488
Other short-term receivables	6	82 809	115 348
Cash and bank deposits	11	312 804	107 595
Total current assets		**1 352 977**	**1 159 601**
TOTAL ASSETS		**7 435 673**	**7 323 863**

The following notes form an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEET (contd.)

(Figures in NOK 000)	Notes	31.12.2019	31.12.2018
EQUITY AND LIABILITIES			
Equity			
Contributed equity			
Share capital	12, 18	120	120
Premium paid	12	2 807 354	2 807 354
Total contributed equity		**2 807 474**	**2 807 474**
Retained earnings			
Translation difference	12	64 123	20 473
Other equity	12	85 694	6 285
Total retained earnings		**149 817**	**26 758**
Owners of the company		2 957 291	2 834 232
Non-controlling interests		493 924	296 795
Total equity		**3 451 215**	**3 131 028**
Non-current liabilities			
Pension liabilities	16	6 011	6 053
Provisions		4 351	4 492
Deferred tax	15	878 950	983 154
Lease liabilities	20	100 440	0
Interest-bearing debt - Bond	14	1 981 555	0
Interest-bearing debt - Bank	14	500 000	500 000
Total non-current liabilities		**3 471 307**	**1 493 699**
Current liabilities			
Interest-bearing debt - Related parties	14	0	2 088 782
Trade payables		153 169	158 041
Public charges payable		63 198	57 819
Tax payable	15	27 282	74 840
Forward currency contracts	22	2 552	23 622
Interest-bearing debt - Bank	11, 14	0	111 878
Dividend		10 545	0
Other current liabilities	6	222 200	184 154
Lease liabilities	21	34 205	0
Total current liabilities		**513 151**	**2 699 136**
Total liabilities		**3 984 457**	**4 192 835**
TOTAL EQUITY AND LIABILITIES		**7 435 673**	**7 323 863**

The following notes form an integral part of the consolidated financial statements.

Oslo, 3. April 2020

The board of Ekornes QM Holding AS

Ruihai Zhao
Chair

Mogens Falsig
Director and CEO

CONSOLIDATED STATEMENT OF CASH FLOW

(Figures in NOK 000)	Notes	Y 2019	4.1 - 31.12.2018
Cash flows from operating activities			
Earnings before tax (EBT)		**127 351**	**13 600**
Tax paid for the period	15	-101 886	-24 110
Depreciation and write downs	8	289 468	82 680
Change in inventory	9	-18 262	13 606
Change in trade receivables	10	-2 445	-49 494
Change in trade payables		-4 873	21 526
Transaction fees from acquisition of Ekornes AS	24	0	13 853
Loss on exchange on long term records	14	0	52 544
Change in other time limited records		81 682	47 646
Net cash flow from operating activities		**371 036**	**171 851**
Cash flows from investing activities			
Proceeds from sale of PP&E	8	2 314	4 760
Payments for purchase of PP&E	8	-97 495	-44 990
Payment of acquisitions of Ekornes ASA	24	0	-4 541 367
Net Cash flows from investing activities		**-95 181**	**-4 581 597**
Cash flows from financing activities			
Payment of lease liabilities	20, 25	-36 468	0
Payment of dividend	25	-11 495	0
Issue of long-term debt - Bond	25	1 981 555	0
Issue of/repayment of internal loan	25	-1 897 582	4 595 889
Issue of/repayment of net short-term debt to credit institutions	25	-111 878	-91 522
Net cash flow from financing activities		**-75 868**	**4 504 367**
Change in net cash & cash equivalents		**199 987**	**94 620**
Effect of exchange gains / (losses) on cash and cash equivalents		5 222	12 946
Net cash & cash equivalents at the start of the period	11	107 595	30
Net cash & cash equivalents at the close of the period	**11**	**312 804**	**107 595**
Restricted cash at the end of the period		146 104	20 600
Unrestricted cash at the end of the period		166 700	86 995

In the statement of cash flow, cash and bank deposits are recognised as cash.

In April 2019, Ekornes QM Holding AS issued a stock exchange bond to refinance the Group and part of the condition is to have a minimum liquidity in Ekornes QM Holding of NOK 125.000.000,- The rest of the restricted cash at 31 December 2019 are related to the payment of employee tax deductions.

The following notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Figures in NOK 000)	Share capital	Premium paid	Translation difference	Other	Total	Non-controlling interests	Total equity
Equity 04.01.2018	**30**	**0**	**0**	**0**	**30**	**0**	**30**
Earnings for the year				6 285	**6 285**	4 189	**10 475**
Other comprehensive income			20 473		**20 473**	0	**20 473**
Minority shareholders at time of group establishment					**0**	292 606	**292 606**
Capital increase	90	2 807 354			**2 807 444**	0	**2 807 444**
Equity 31.12.2018	**120**	**2 807 354**	**20 473**	**6 285**	**2 834 233**	**296 795**	**3 131 028**
Equity 31.12.2018	**120**	**2 807 354**	**20 473**	**6 285**	**2 834 233**	**296 795**	**3 131 028**
Earnings for the period				79 409	**79 409**	21 237	**100 646**
Reclassifications Other comprehensive income 2018			-1 945		**-1 945**	1 945	**0**
Other comprehensive income			45 595		**45 595**	4 786	**50 381**
Dividend*					**0**	-22 040	**-22 040**
Debt convertion**					**0**	191 201	**191 201**
Equity 31.12.2019	**120**	**2 807 354**	**64 123**	**85 694**	**2 957 291**	**493 924**	**3 451 215**

Dividend from Ekornes Holding AS

On 28 May 2019 an ordinary general assembly was held in Ekornes Holding AS. The general assembly resolved to approve the year-end financial statements for the Company, directors' report and audit statement for 2018. The Board furthermore resolved, in accordance with the proposal of the Board, that NOK 217 million will be distributed as a dividend.

On 17 December 2019 an extraordinary general assembly was held in Ekornes Holding AS. The general assembly resolved, in accordance with the proposal of the Board, that NOK 15 million will be distributed as a supplementary dividend.

(Figures in NOK)		Annual general assembly	Extraordinary general assembly	Total
Ekornes QM Holding AS	90,5 %	196 385	13 575	209 960
Ruisi Holding Company Limited	9,5 %	20 615	1 425	22 040
Total	**100,0 %**	**217 000**	**15 000**	**232 000**

The dividend to Ekornes QM Holding is eliminated in the group financial statement of Ekornes QM Holding. The dividend of NOK 22.0 million will be paid to the non-controlling interest Ruisi Holding. As at 31 December 2019, NOK 10.5 million remained unpaid.

****Debt Convertion in Ekornes Holding AS**

On 28 September 2018, Ekornes Holding AS entered into two loan agreements with respectively Ekornes QM Holding AS and Ruisi Holding Company Limited (Luxembourg) in connection with the acquisition of Ekornes AS. As part of the settlement of the financing structure set up by the group in relation the acquisition of Ekornes AS, the board carried out a share capital increase towards Ekornes QM Holding AS and Ruisi Holding Company Limited (Luxembourg), by increasing the par value of the Company's shares with NOK 1. The payment for the share capital increase was settled by way of setting off the outstanding amount under the Loan Agreements. For the non-controlling interest the debt convertion amounts to TNOK 191 201. The proportionate ownership between Ekornes QM Holding AS and Ruisi Holding Company Limited (Luxembourg) remains unchanged following the share capital increase, with respectively 905 000 shares that represent 90.50% of the share capital and the votes in Ekornes Holding AS, and 95 000 shares that represent 9.50% of the share capital and the votes in Ekornes Holding AS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

REPORTING ENTITY AND PRESENTATION

The consolidated financial statements comprise Ekornes QM Holding AS and consolidated subsidiaries (Ekornes QM Holding Group).

The Group Ekornes QM Holding include the group Ekornes and its holding companies. Ekornes is the largest furniture manufacturer in Norway, and owns the brands Ekornes®, Stressless®, Svane® and IMG. Stressless® is one of the world's most well-known brands within the furniture industry, while Ekornes®, Stressless® and Svane® are the most well-known furniture brands in Norway. IMG is best known in Australia and the USA. Manufacture takes place at the Group's ten factories. The Group has five factories in Norway, one in the USA, one in Thailand, two in Vietnam and one factory in Lithuania, opened in 2019. Products are sold in large parts of the world through own sales companies or through importers. Ekornes' business idea is to develop and manufacture products that are outstanding with respect to comfort and functionality, and whose price and design appeal to a wide audience.

Ekornes QM Holding AS is a limited company registered in Norway, with main office located in Oslo. Ekornes QM Holding AS' consolidated financial statements for 2019 were approved at a board meeting on 3 April 2020. The consolidated financial statements were proposed for final adoption at the ordinary General Meeting on 7 April 2020.

Presentation

The functional currency is determined for each company in the Group, based on the currency in the primary economic environment in which each individual company operates. Ekornes QM Holding AS' functional currency is Norwegian Kroner (NOK). The presentation currency for the consolidated financial statements of Ekornes QM Holding is Norwegian Kroner (NOK).

The consolidated financial statements have been prepared in accordance with equable accounting principles for similar transactions and events under otherwise same conditions. The accounting principles have been applied consistently by all group companies.

STATEMENT OF COMPLIANCE

The Ekornes QM Holding AS`s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) which have been adopted by the EU and are mandatory for financial years beginning on or after 1 January 2019, and Norwegian disclose requirements listed in the Norwegian Accounting Act as of 31.12.2019.

The accounting policies adopted are consistent with those of the previous financial year, except for the amendments to IFRS which have been implemented by the Group during the current financial year. Below we have listed the amendments in IFRS which have been applicable for the Group's 2019 financial statements, as well as the effect of the amendments.

- *IFRS 16 Leasing.*
  Effective 1 January 2019 the Group adopted IFRS 16 using the modified retrospective approach and accordingly comparative information has not been restated. The impact of changes in accounting policies and impact of the initial application is disclosed in note 20 Leasing.

- *IAS 12 Income Taxes*
  The amendments clarify that the requirements in IAS 12.52B apply to all income tax consequences of dividends. The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

MAIN ACCOUNTING PRINCIPLES

(A) PRINCIPLES FOR CONSOLIDATION

The consolidated financial statements comprise the financial statements of the parent company and its subsidiaries as at 31 December 2019. As at 31 December 2019, Ekornes QM Holding AS has 90,5 per cent shareholding and voting rights in Ekornes Holding AS, who in its turn has 100 per cent owner share and voting rights for all other consolidated companies.

Ekornes Group is consolidated from the acquisition date in August 2018, so only four months of revenue and cost related to Ekornes group is included in the figures for 2018.

See Note 19 for a list of subsidiaries included in the consolidated financial statements of Ekornes QM Holding AS.

(i) Acquisitions

The purchase of subsidiaries is recognized in accordance with the acquisition method at the date on which the group obtains control. Both consideration and assets acquired are measured at fair value. Any excess value attributable to goodwill is tested annually for impairment. Transaction costs are recognized as expense in the consolidated financial statements.

(ii) Subsidiaries

Subsidiaries are entities controlled by the group. Control exists when the group has the power, directly or indirectly, to govern the financial and operating policies of an entity to obtain benefits from its activities. In assessing control, potential voting rights that may be exercised or converted are taken into account. Subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Ekornes has no associates or jointly controlled enterprises.

(iii) Elimination of transactions at consolidation

Translation differences arising from the translation of net investments in foreign operations are recognized in the statement of comprehensive income.

Foreign exchange gains or losses from receivables and liabilities against a foreign activity, the settlement of which is neither planned nor probable in the foreseeable future, are considered as part of the net investment in the foreign operation and are incorporated in the statement of comprehensive income and presented as translation differences in equity.

For all foreign operations, the translation differences are presented on separate line under equity (reserve for translation differences). Additional compensation that is to be considered as settlement of future services under IFRS are recognized as expense in the period over which the additional compensation can be earned.

(B) DERIVATIVES

The Group makes use of derivatives to hedge currency risks arising from its operational, financing and investment activities. In accordance with its treasury policy, Ekornes does not hold or issue derivative financial instruments for trading purposes. Derivatives are recognized at their fair value on acquisition. Gains or losses deriving from reassessment to changed fair value are recognized in profit and loss immediately.

(C) BUSINESS COMBINATIONS

The acquisition method is used to account for all business combinations, independent of equity instruments or other assets acquired. The consideration transferred for the acquisition of a subsidiary comprises:
- fair value of the assets transferred
- liabilities related to previous owner of the acquired activity
- equity interests issued by the group
- fair value of any assets or liabilities arising from a contingent consideration arrangement, and
- fair value of any existing owner interests in the subsidiary

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination, with few exemptions, are initially measured at fair value at the time of acquisition. The group incorporates any non-controlling owners in the acquired activity at acquisition either at fair value or in the non-controlling owners' proportional share of the acquired entity's net identifiable assets. The method to be used is assessed from acquisition to acquisition.
Acquisition costs are recognized in the income statement as incurred.
The positive difference between
- consideration
- value of non-controlling owners in the acquired entity, and
- fair value at the time of acquisition of previous shares in the acquired entity and fair value of net identifiable assets acquired are recognized as goodwill.

When the settlement of part of the cash consideration has been postponed, the future payments are discounted to the present value at the date of measurement. The discount rate used is the entity's incremental borrowing interest, which is the interest of a similar borrowing that could be provided from an independent financial institution under comparable conditions.

Contingent consideration is classified either as equity or financial liability. Amounts classified as financial liability are recalculated to fair value with changes in fair value included in the income statement.

If the business combination takes place in several steps, the buyer's previously held equity in the entity is reassessed to fair value at the acquisition date. Any gains or losses arising from such reassessment are recognized in profit or loss.

(D) PROPERTY, PLANT AND EQUIPMENT

(i) Own assets
Items of property, plant and equipment are stated in the balance sheet at acquisition cost less accumulated depreciation (see below) and impairment losses (see accounting policy I).

The acquisition cost of self-constructed assets includes the cost of materials, direct labour and an appropriate proportion of production overheads.

When substantial parts of a non-current tangible asset have different useful lives, they are deemed to be separate components for accounting purposes.

(ii) Subsequent costs
In the acquisition cost of an item of property, plant or equipment, Ekornes includes the cost of replacement of parts of any such item, when the expenditure is expected to bring future economic benefits to the Group, and the cost of the replaced parts can be measured reliably. The carrying amount of the replaced part is deducted. All other expenses are recognized in profit and loss as they accrue.

(iii) Depreciation
Ordinary depreciations are charged linearly to profit or loss over estimated useful life for each individual operating asset. Land is not depreciated.

(E) INTANGIBLE ASSETS

Intangible assets that are purchased separately are initially measured at cost recognized as intangible asset when the group has control of the asset, future economic benefits are expected to flow to the group and the cost can be reliably measured. For intangible assets included in a business combination cost has been measured at fair value at the transaction date. Subsequently, intangible assets are recognized at cost less accumulated amortization and possible impairment. Intangible assets with definite lifetime are depreciated over useful life. Useful life and depreciation method for intangible assets with definite life are assessed at least once a year. Linear depreciation is used for the intangible assets, as this is considered the best way to reflect the use of the assets. Profit or loss from disposal of intangible assets are calculated as the difference between net sales revenue and the recognized value of the asset and is reported as part of other income or other expenses in the operating result of the income statement.

(i) Research and Development

Expenses relating to research activities are recognized in profit and loss as they incur. Development costs are capitalized to the extent that the product or process is technically and commercially feasible, and Ekornes has sufficient resources to complete their development. Capitalized costs include materials costs, direct payroll costs and a share of directly attributable overheads. Capitalized development costs are recognized at acquisition cost less accumulated depreciation and write-downs. Capitalized development costs are depreciated linearly over the asset's estimated useful life.

(ii) Capitalized licenses and software

Expenses relating to the purchase of new software are capitalized as an intangible asset if these expenses are not part of the acquisition cost of a piece of hardware. Software is normally depreciated linearly over its expected useful life. Expenses incurred as a result of maintenance or to retain the software's future utility are charged to expenses unless the changes in the software increase its future economic utility.

(iii) Goodwill

Intangible assets that are purchased separately are initially measured at cost recognized as intangible asset when the group has control of the asset, future economic benefits are expected to flow to the group and the cost can be reliably measured. For intangible assets included in a business combination cost has been measured at fair value at the transaction date Subsequently, intangible assets are recognized at cost less accumulated amortization and possible impairment. Intangible assets with definite lifetime are depreciated over useful life. Useful life and depreciation method for intangible assets with definite life are assessed at least once a year. Linear depreciation is used for the intangible assets, as this is considered the best way to reflect the use of the assets. Profit or loss from disposal of intangible assets are calculated as the difference between net sales revenue and the recognized value of the asset and is reported as part of other income or other expenses in the operating result of the income statement.

(iv) Customer relations and brands

The value of customer relations and brands arising from the acquisition of subsidiaries is valued at acquisition cost less accumulated depreciation, which is allocated linearly over expected useful life. Costs relating to the in-house development and maintenance of brand names and other intangible assets are recognized as expenses in the income statement in the period they are incurred. Any acquisition of such assets is recognized in the balance sheet.

(F) TRADE AND OTHER RECEIVABLES

Trade and other receivables are stated at cost less a provision for bad debts.

(G) INVENTORY

Inventory is recognized at the lower of acquisition cost and net sales price. Net sales price is the estimated sales price under ordinary operating conditions, less estimated expenses for completion, marketing and distribution. Acquisition cost is based on the first-in/first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their present location and condition. Self-produced goods include variable costs and fixed overheads which can be allocated on the basis of normal operating capacity.

(H) CASH AND CASH EQUIVALENTS

Cash includes cash in hand and bank deposits. Cash equivalents are short-term liquid investments which may be immediately converted into a predetermined amount of cash and with a maximum term of three months. Funds which are originally tied up for more than three months are not included in cash and cash equivalents (see Note 11).

(I) IMPAIRMENTS

An impairment arises when the book value of an asset or cash-generating entity (assessment entity) exceeds its recoverable value. Impairment write-downs are recognized in profit and loss. The recoverable amount is defined at the higher of the asset or cash-generating entity's fair value less sales costs and value in use.

(J) SHARE CAPITAL

Dividends are recognized as a liability in the period in which they are approved. Any proposed dividend remains part of equity until the date of its final approval.

(K) EMPLOYEE BENEFITS

(i) Defined-contribution pension plans

Liabilities in respect of contributions to defined-contribution pension plans are recognized as an expense in profit and loss as they accrue.

(ii) Defined-benefits pension plans

Net liabilities in respect of defined-benefit pension plans are calculated separately for each plan. This is achieved by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. These future benefits are discounted to determine their present value, and the fair value of any plan assets is deducted to arrive at a net liability. When the benefits of a plan are improved, the portion of the increased benefit relating to past accruals is recognized as an expense in profit and loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit and loss. Actuarial gains and losses are recognized directly in equity when they arise.

(iii) Employee bonus payments (see also Note 16)

Most group employees are entitled to a bonus based on the profitability of the segment in which they are employed. The bonus is calculated as a percentage of each employee's monthly salary. Bonuses earned are paid in cash and are considered to be a purely cash bonus. The fair value of accrued bonuses is recognized as an expense in profit and loss, and as a liability in the balance sheet.

(L) PROVISIONS

A provision is recognized when Ekornes has incurred an obligation (legal or self-imposed) as a result of a past event, and it is probable (more probable than not) that this obligation will come to a financial settlement and the amount payable can be reliably measured. If the effect is substantial, the provision is calculated by discounting expected future cash flows by a discount rate before tax that reflects the market's pricing of the time value of the money and, if relevant, risks specifically linked to the obligation.

(i) Warranties

Costs relating to warranties are recognized on the date a claim is made.

(ii) Restructuring

Provisions for restructuring are recognized when the Group has approved a detailed and formal restructuring plan, and the restructuring process has either started or has been publicly announced.

(M) REVENUE

(i) Revenue

IFRS 15 requires that the Group, for each contract with a customer, identify delivery liabilities, determine the transaction price, match the transaction price to the delivery liabilities if the contract encompasses more than one delivery liability, decide if operating revenues must be recognized over time or on one date, and recognize operating revenues on the date of or over the period for the fulfilment of the delivery liability concerned. Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods. Ekornes recognizes operating revenues on the date of delivery to the customer. A delivery liability is fulfilled on the date the customer gains control of the delivered item. The most important discretionary assessment for Ekornes is calculation of the transaction price. This is because the price to the customer includes several different discounts and bonuses. The estimation of expected bonuses in particular requires the application of discretionary judgement.

(ii) Government grants

Grants that compensate the Group for the acquisition cost of an asset are recognized as a reduction in the asset's acquisition value. Grants that compensate for expenses incurred are recognized as a cost reduction in the financial statements covering the same period as the expenses they are intended to cover.

(N) LEASES

Ekornes implemented IFRS 16 Leases on January 1, 2019. The standard was implemented retrospectively with the cumulative effect of initially applying the standard recognized in the balance sheet as of January 1, 2019. The impact of changes in accounting policies and impact of the initial application is disclosed in note 20 Leasing.

IFRS 16 requires all leases except short-term leases and small asset leases to be recognized on the balance sheet as a right-of-use asset and a lease liability. The right-of-use asset is recognized according to the underlying asset, i.e. included in Property, plant and equipment. The lease liability is included in non-current liabilities, with the short-term portion included in current liabilities.

At implementation of IFRS 16, the liabilities were measured as the contractually fixed payments in future periods discounted using the estimated alternative borrowing rate for the relevant duration and currency. Renewal options that at initial recognition are reasonably certain to be used are included in the contractual cash flows when measuring the lease liability. The right-of-use assets are measured as the remaining liability for all contracts. As required by the implementation guidance in the standard, amounts for prior periods have not been restated and are thus not fully comparable.

The right-of-use asset is depreciated over the lease term. Contractual payments represent a combination of interest on the liability and repayment of the principal amount.

Lease amounts representing variable payments based on such factors as specific cost elements in related services or usage, lease amounts for short-term leases of a duration of up to 12 months as well as lease amounts for low value leases covering such elements as PCs and other office equipment, is expensed as Other expenses over the lease term.

(O) TAX

Tax on the year's profit comprises tax payable and deferred tax. Tax is included in profit and loss with the exception of tax that is recognized directly in equity or in other comprehensive income. Tax payable comprises the expected tax payable on the year's taxable earnings at the rate applicable on the balance sheet date, plus any corrections in tax payable for previous years. Deferred tax is calculated on temporary differences between the recognized values of assets and liabilities in the financial statements and their value for tax purposes.

The following temporary differences are not taken into account:

Initial recognition of assets or liabilities which affect neither profit/loss in the accounts or for tax purposes, as well as differences relating to investments in subsidiaries that are not expected to be reversed in the foreseeable future. Deferred tax liabilities and assets are measured on the basis of expected future tax rates applicable to group companies in which temporary differences have arisen. Deferred tax liabilities and assets are recognized at nominal value. Deferred tax assets are capitalized only to the extent that it is probable that the asset may be utilized in connection with future taxable profits. Deferred tax assets are reduced to the extent that it is no longer probable that the tax assets will be utilized.

(P) SEGMENT REPORTING

Under IFRS, a business segment is defined as a part of the Group engaged in business operations capable of generating revenues and expenses, including revenues and expenses deriving from transactions with other group segments, and whose operating profit/loss is reviewed regularly by the enterprise's highest decision-maker for the purpose of determining which resources shall be appropriated to the segment and evaluating its earnings.

Ekornes carries out its business within the segments/product areas:

- Stressless®, which covers furniture within the product area Stressless®
- Svane®, which covers mattresses and furniture within the Svane® product area
- IMG, which covers furniture from the IMG product area

The division into product areas is based on the Group's management and internal reporting structure. Note 1 includes a numerical list of the segments that comply with Ekornes' internal segment reporting.

NOTE 1 Business areas – segments – markets

The division into product areas is based on the Group's management and internal reporting structures, and coincides with the division into segments.
Ekornes QM Holding Group's business is divided into the segments/product areas:

- Stressless®, which covers the Stressless® product area
- Svane®, which covers the Svane® product area
- IMG, which covers furniture produced by IMG

The Group's administration expenses and other shared overheads are allocated to the segments. Internal pricing between the segments is based on arm's length prices at corresponding terms as transactions with independent third parties. Management regularly monitors the business segments' profit/loss and uses this information to perform analyses of their performance and to make decisions regarding resource allocation. Each segment's performance is assessed on the basis of its operating profit and is measured consistently with the operating profit in the consolidated financial statements.

The Ekornes Group is the only operational part of the Ekornes QM Holding Group. Ekornes Group is consolidated from the acquisition date in August 2018, so only four months of revenue and cost related to Ekornes group is included in the figures for 2018.

Information relating to the Group's reportable business segments is presented below:

(Figures in 000 NOK)

Revenues per segment	**Y 2019**	**4.1 - 31.12.2018**
Stressless®	2 402 399	889 863
IMG	551 417	175 327
Svane®	215 190	65 991
Total	**3 169 006**	**1 131 180**
EBITDA per segment		
Stressless®	433 167	124 332
IMG	115 540	43 537
Svane®	-6 729	-7 451
Other/eliminations*	-17 693	-16 412
Total	**524 286**	**144 006**

* Other / eliminations contain results from activities carried out by the parent company and other non-production-oriented companies in the group.

EBIT per segment		
Stressless®	208 957	59 679
IMG	49 264	26 257
Svane®	-10 001	-8 198
Other/eliminations*	-13 259	-16 412
Total	**234 961**	**61 326**

* Other / eliminations contain results from activities carried out by the parent company and other non-production-oriented companies in the group.

Operating revenues by market		
Norway	431 633	157 044
Other Nordic	171 774	64 617
Central Europe	578 025	191 809
Southern Europe	215 868	82 283
UK/Ireland	210 174	85 286
USA/Canada/Mexico	990 048	374 641
Japan	139 788	45 780
China	113 572	16 353
Other Markets	318 123	113 368
Total	**3 169 006**	**1 131 180**

NOTE 2 Personnel expenses

(Figures in NOK 000)	2019	4.1 - 31.12.2018
Payroll expenses	773 279	238 793
Employer's national insurance contributions	100 177	32 179
Pensions	35 379	10 210
Other personnel costs	28 914	22 768
Total personnel expenses	**937 749**	**303 950**
Average number of full-time equivalents	2 176	2 099

NOTE 3 Uncertain estimates

When preparing the year-end financial statements, management has made use of estimates based on its best judgement and assumptions considered to be realistic. However, changes in the market or other situations may arise that could alter certain estimates, thereby affecting the company's assets, liabilities, equity and earnings.

The company's most significant accounting estimates relate to the following items:

- Depreciation and write-downs on property, plant & equipment
- Valuation of goodwill

Impairment assessments (see note 8 for further descriptions)
The Group has made significant investments in tangible fixed assets, intangible assets and goodwill. Valuation and remaining economic life of fixed assets and intangible assets are based on future expectations and will always involve discretionary assessments with inherent estimation uncertainty. Goodwill is assessed for impairment annually or when there are indications of impairment, while other assets are assessed when there are indications of impairment. Factors indicating impairment and triggering requirements for testing the value of assets include: significant reduction in market values; significantly weaker results in relation to historical results or in relation to expected results; significant changes in the use of assets or in the overall business strategy, including assets that are decommissioned or discontinued and assets that are damaged or decommissioned, significant negative developments in the industry or economies, substantial reduction of market share, significant adverse regulatory decisions and court decisions, and significant cost overruns when developing assets.

According to IAS 36 Impairment of Assets, the recoverable amount of assets is the higher of value in use and fair value less costs to sell. Value in use, especially when using discounted cash flow methods, must be largely based on management's discretionary estimates and expectations, including determining appropriate cash-generating units, discount rates, estimating future performance, asset revenue-generating capacity, margins, required maintenance investments, and future market conditions assumptions. The effects of recession and increased macroeconomic risk can affect estimates of future earnings and the discount rate used to estimate the recoverable amount of the assets.

For the assessment of impairment of goodwill, discounted cash flow models have been used to determine recoverable amount, based on the latest financial budgets and forecasts approved by the management. A forecast period of five years is assumed, during which the last year has been used as a basis for calculating a terminal value based on Gordon's growth model. Future developments in volume, sales prices and operating margins are important factors in the Group's impairment assessments. Expectations of future cash flows will vary over time as a result of changes in market conditions, demand and the competitive situation, and long-term estimates of key assumptions in the individual countries and regions will be uncertain.

NOTE 4 Net financial items

(Figures in NOK 000)	2019	4.1 - 31.12.2018
Interest income	31 679	7 814
Financial income	562	774
Total financial income	**32 241**	**8 588**
Gain/loss on foreign exchange	**73 764**	**-27 207**
Interest expenses	209 577	26 719
Financial expenses	4 037	2 388
Total financial expense	**213 614**	**29 107**
Total financial items	**-107 609**	**-47 726**

Transactions cost amortised

In April 2019, Ekornes QM Holding AS issued a stock exchange bond to refinance the Group. The bond was listed on Oslo Stock Exchange 10 July. Oslo Stock Exchange - Bond "FRN Ekornes QM Holding AS Senior Secured Callable Bond Issue 2019/2023". See note 14 for more information.

Transaction costs related to the issue of the bond has been amortized over the period from the settlement date to the maturity date of the bond. The effective interest method has been uses in calculating the amortised cost of the financial liability and in the allocation and recognition of the interest expense in profit or loss over the period.

NOTE 5 Other operating expenses

Total other operating expenses amount to NOK 860.6 million. Of this amount the following is related to renumeration to auditor, both group auditor and other auditors:

(Figures in NOK 000)

Breakdown of auditing fees	2019	4.1 - 31.12.2018
Statutory auditing services	13 515	5 802
Other certification services	3 050	421
Other non-auditing services	732	279
Tax advisory services	577	268
Total	**17 874**	**6 769**

Auditing fees are stated ex. VAT

NOTE 6 Other receivables and other liabilities

(Figures in NOK 000)

Other receivables	**31.12.2019**	**31.12.2018**
Premium and contribution fund	2 467	2 958
Other receivables related to the production cycle	2 938	6 450
Prepayments to suppliers	9 439	24 264
Accrued expenses	29 273	25 896
Prepaid tax and VAT refunds due	32 449	37 764
Other	6 244	18 017
Total other receivables	**82 809**	**115 348**

Other current liabilities	**31.12.2019**	**31.12.2018**
Salaries payable	122 589	121 139
Accrued bonus/market support to customers	20 199	16 172
Accrued other marketing costs	5 985	5 198
Accrued cash discounts to customers	4 480	3 133
Accrued commission to sales staff	4 771	7 037
Accrued administrative costs	7 009	9 807
Advances from customers (contract liabilities)	8 279	7 616
Accrued interest Bond	38 810	0
Other	10 077	14 053
Total other liabilities	**222 200**	**184 154**

NOTE 7 Other investments

(Figures in NOK 000)

Other receivables and investments:	**31.12.2019**	**31.12.2018**
Investments in other companies	1 333	1 343
Total	**1 333**	**1 343**

NOTE 8 Property, Plant, Equipment and Intangible assets

(Figures in NOK 000)	Sites and buildings	Machinery and equipment	Asset under construction	Operating movables	Total	Software and licenses
Acquisition value 04.01.2018	**0**	**0**	**0**	**0**	**0**	**0**
Currency differance 04.01.2018	0	0	0	0	**0**	1 234
Addition by acquisition	1 024 492	332 079	56 911	21 073	**1 434 555**	47 165
+ additions	8 738	18 472	36 062	118	**63 390**	6 207
+/- reclassification	0	0	0	0	**0**	0
- disposals	-7 583	-10 673	-3 902	-1 169	**-23 327**	-2 811
Acquisition value 31.12.2018	**1 025 646**	**339 878**	**89 071**	**20 022**	**1 474 617**	**51 795**
Accumulated dep. and write-downs 04.01.2018	**0**	**0**	**0**	**0**	**0**	**0**
Currency differance 04.01.2018	0	0	0	0	**0**	1 233
+ depreciations	19 341	29 334	0	803	**49 478**	4 068
+/- reclassification	850	-1 112	0	-163	**-425**	0
- acc. Depreciation on operating assets sold	-5 970	-10 548	0	-279	**-16 797**	-2 802
Accumulated dep. and write-downs 31.12.2018	**14 221**	**17 673**	**0**	**361**	**32 255**	**2 499**
Book value 31.12.2018	**1 011 425**	**322 205**	**89 071**	**19 661**	**1 442 362**	**49 296**
Acquisition value 31.12.2018	**1 690 790**	**1 112 020**	**89 559**	**122 621**	**3 014 990**	**281 961**
Currency differance 31.12.2018	2 457	2 477	-560	603	**4 977**	33
+ additions	86 554	61 520	-71 201	9 262	**86 134**	10 752
+/- reclassification	-679	-1 999	-1 183	-162	**-4 024**	3 183
- disposals	-1 916	-26 705		-15 355	**-43 977**	-65 129
Acquisition value 31.12.2019	**1 777 206**	**1 147 313**	**16 615**	**116 968**	**3 058 101**	**230 800**
Accumulated dep. and write-downs 31.12.2018	**679 365**	**789 815**	**0**	**102 960**	**1 572 140**	**233 153**
Currency differance 31.12.2018	648	2 691		410	**3 749**	1
+ depreciations	57 031	72 105		7 904	**137 041**	14 930
+/- reclassification	-679	1		-162	**-841**	0
- Acc. depreciation on operating assets sold	-513	-27 087		-14 033	**-41 633**	-65 129
Accumulated dep. and write-downs 31.12.2019	**735 852**	**837 526**	**0**	**97 079**	**1 670 457**	**182 955**
Book value 31.12.2019	**1 041 353**	**309 787**	**16 615**	**19 889**	**1 387 644**	**47 844**

In the asset note the accumulated values for acquisition and depreciation are different on 1. January 2019 compared to the accumulated values on 31. December 2018. The reason for this matter is that the company wish to show gross, accumulated values of the assets from when they were acquired, instead of showing net value of assets from the point where Ekornes Group was acquired from Ekornes QM Holding AS. This definition of assets provides a better understanding on additions, disposals and depreciations on group level for Ekornes QM Holding. These reclassifications do not cause any changes of book values, it's only a change to highlight movements in assets during the fiscal year.

NOTE 8 Property, Plant, Equipment and Intangible assets (contd.)

Estimated useful lives are as follows:
- Buildings 25-50 years
- Machinery & equipment 5-12 year
- Operating movables and fixtures 2-10 years
- Licences and patents 5 years
- Software 3 years
- No depreciation of Land property

Intangible assets from the purchase price allocations
Goodwill is not depreciated in the consolidated financial statements, but is tested annually for impairment.

Customer relationships and brand names are depreciated on a straight-line basis over estimated lifetime. Estimated lifetime customer relationships are rated at 25 years for the Stressless segment and 10 years for the IMG segment. For brands, the estimated lifetime is estimated at 50 years for the Stressless segment and 10 years for the IMG segment. Depreciation expense is included in ordinary depreciation in the income statement.

In connection with the purchase price allocation, excess values were identified related to brand names, customer relationships, real estate and fixed assets.

(Figures in NOK 000)	Goodwill	Customer relationships	Brand name	Total
Addition by acquisition of Ekornes ASA	1 645 575	1 302 291	1 656 419	**4 604 285**
Acquisition value 31.12.2018	1 645 575	1 302 291	1 656 419	**4 604 285**
Accumulated depreciation 04.01.2018	0	0	0	**0**
The year's depreciation	0	19 008	13 558	**32 566**
Accumulated depreciation 31.12.2018	0	19 008	13 558	**32 566**
Book value 31.12.2018	**1 645 575**	**1 283 283**	**1 642 861**	**4 571 719**
Split per segment 31.12.2018				
Stressless®	750 078	798 241	1 395 557	**2 943 876**
IMG	895 497	485 042	247 304	**1 627 843**
Svane®	-			
Book value 31.12.2018	**1 645 575**	**1 283 283**	**1 642 861**	**4 571 719**
Acquisition value 31.12.2019	1 645 575	1 302 291	1 656 419	**4 604 285**
Accumulated depreciation 31.12.2018	**0**	**19 008**	**13 558**	**32 566**
The year's depreciation	0	59 025	40 673	**99 698**
Accumulated depreciation 31.12.2019	0	78 033	54 231	**132 264**
Currency translation differences	0	44 711	0	**44 711**
Reassessment PPA *	-84 460	0	0	**-84 460**
Book value 31.12.2019	**1 561 115**	**1 268 969**	**1 602 188**	**4 432 273**

* Refer to change in measurement of deferred tax liabilities on excess values from the acquisition as described in note 15 Tax.

Split per segment 31.12.2019				
Stressless®	676 614	792 882	1 367 458	**2 836 954**
IMG	884 501	476 088	234 730	**1 595 318**
Book value 31.12.2019	**1 561 115**	**1 268 969**	**1 602 188**	**4 432 273**

NOTE 8 Property, Plant, Equipment and Intangible assets (contd.)

Impairment assessment goodwill
The Group has performed an impairment assessment of goodwill at 31 December 2019 in accordance with IAS 36 and based on the methods as described in the standard. Book value of goodwill was NOK 1 561 million at 31 December 2019, and was allocated to the two operating segments Stressless and IMG at the acquisition date as presented in the table. The operating segments represent the lowest level within the entity at which the goodwill is monitored for internal management purposes. Each segment comprise several production and sales companies which are closely integrated and dependent of each other. Thus, management consider each of the operating segments as a joint group of cash generating units when performing impairment assessment for goodwill.

When performing impairment testing and measuring recoverable amount, discounted cash flow models is calculated for each segment. Management projections are based on budget for 2020 approved by the Board of Directors and a forecast period of five years. Cash flow projections beyond the forecast period is estimated by extrapolating the projections using a steady growth rate for subsequent years equivalent to the expected inflation rate of 2,0%. When calculating recoverable amount the future expected cash flows after tax are discounted applying an appropriate discount rate (WACC) after tax of 8,2% for both segments.

The most important assumptions when estimating future cash flows is management projections of revenue growth and operating margin. In the forecast period, the average expected growth rate is expected to be 2% for Stressless and 10% for IMG. Operating margins are expected to be in line with historical and budgeted margins per segment.

Based on management impairment assessment at 31 December 2019, recoverable amount is higher than carrying amount for both Stressless and IMG, and the Group has concluded that it will not be necessary to make any impairments in the financial statements for 2019. Management has performed sensitivity analysis for changes in key assumptions when estimating recoverable amount. The outcome of the sensitivity analysis performed at 31 December 2019 is presented in the table below.

(Figures in NOK 000) **Potential depreciation at following changes**		**Stressless®**	**IMG**
Growth in sales	-1 %	0	0
EBITDA-margin	-1 %	0	0
Discount rate (WACC)	+1 %	0	-151 401

Intangible assets
These are some of the company's most important intangible assets:
- Registered trademarks (Ekornes®, Stressless®, IMG og Svane®)
- Registered domains
- Patents
- Registered designs
- Distribution network (international)
- Market concept
- Product concepts
- Manufacturing expertise
- International marketing
- International sourcing

With the exception of some patents and domains, none of these assets has been included on the company's sheet.

NOTE 9 Inventory

(Figures in NOK 000)	31.12.2019	31.12.2018
Inventory finished goods	223 313	224 500
Inventory semi-finished	49 192	45 500
Inventory raw materials	302 926	287 169
Total	**575 431**	**557 170**

All amounts are net after write-downs. Write downs of inventories at TNOK 737 have been recognised as cost of goods sold in 2019.

NOTE 10 Accounts receivable

(Figures in NOK 000)
The table shows the distribution between due and pre-due accounts receivable less provisions:

	Total	Pre-due	<30 d	30-60 d	60-90 d	>90 d
31.12.2019	**381 933**	307 219	62 847	4 383	2 057	5 427
31.12.2018	**379 488**	234 239	96 607	33 071	6 214	9 357

No customer accounts for more than 5 per cent of sales revenues. See Note 22 for details of credit and foreign exchange risks relating to trade receivables.

The change in provisions for bad debts is as follows:

(Figures in NOK 000)	2019	4.1-31.12.2018
Opening balance	**5 728**	**0**
Acquired by group establishment*	0	4 746
Actual bad debts in the year	608	780
Change in bad debt provisions	718	1 762
Closing balance	**7 054**	**5 728**

*In connection with group establishment, accounts receivable accounted for 329 994 TNOK, of which gross value of trade receivables was 334 739 TNOK and provision for loss 4 746 TNOK.

Bad debts are classified as other operating expenses in profit and loss.

NOTE 11 Cash and bank deposits

(Figures in NOK 000)	31.12.2019	31.12.2018
Cash and bank deposits	312 804	107 595

In the statement of cash flow, cash and bank deposits are recognised as cash. Total restricted cash is NOK 146.1 million at 31.12.2019. In April 2019, Ekornes QM Holding AS issued a stock exchange bond to refinance the Group and part of the condition is to have a minimum liquidity in Ekornes QM Holding of NOK 125 million. The rest of the restricted cash, NOK 21.1 million at 31 December 2019 are related to the payment of employee tax deductions.

All the Norwegian subsidiaries in the Ekornes Group and its subsidiaries in Finland, Lithuania, Denmark and the UK participate in a multi-currency group account scheme, with the parent company Ekornes AS as the principal account holder. The parent company agrees permitted drawdowns on the group accounts for each individual subsidiary. All participants are jointly and severally liable for the amount at any time outstanding on the group account. The parent company has entered into agreements with respect to credit facilities with DNB and Sparebank Møre. See also Note 14.

As of 31.12.2019, the Group had the following foreign currency exposure with respect to its group account:

Currency	Amount in currency (Figures in 000)	Exchange rate 31.12.2019	Amount in (Figures in NOK 000)
NOK	113 288	1,000	113 288
USD	1 891	8,780	16 605
JPY	69 568	0,081	5 627
Other	-		3
Total deposits in group account			**135 523**
EUR	-10 740	9,864	-105 940
AUD	-1 992	6,167	-12 286
DKK	-2 674	1,320	-3 531
SGD	-374	6,528	-2 444
GBP	-157	11,594	-1 820
Other			-38
Total drawn down on group account			**-126 059**
Total group account			**9 464**

For other deposits the group had the following currency exposure at 31.12.2019:

EUR	534	9,864	5 264
Net deposit			**5 264**

NOTE 12 Equity

Share capital:
As of 31 December 2019, Ekornes QM Holding's registered share capital comprised 30 000 ordinary shares. All shares have a face value of NOK 4.00. All shares in the company have equal voting rights. All shares give equal rights to the company's net assets. Ekornes QM Holding AS has no treasury shares as of 31.12.2019.

Translation difference:
Translation differences consist of all currency differences arising from the translation of the financial statements into foreign operations, including the translation of receivables that are considered part of the net investments in foreign operations.

NOTE 13 Earnings per share

	2019	**4.1 - 31.12.2018**
Profit for the period	100 645 817	10 474 585
Opening No. of shares	30 000	30 000
Closing No. of shares	30 000	30 000
Weighted average number of shares	30 000	30 000
Basic earnings per share	3 354,86	349,15
Diluted earnings per share	3 354,86	349,15

There are no instruments with a diluting effect.

NOTE 14 Interest-bearing loans and credits facilities

As of 31 December 2018, Ekornes QM Holding AS and Ruisi Holding Company Limited have loans to Ekornes Holding AS. The relative size of the loans reflects their ownership interests of 90,5% and 9,5%, respectively, in Ekornes Holding AS. In March 2019, both of these loans were converted into equity in Ekornes Holding AS, which means the ownership shares in Ekornes Holding AS are unchanged.

In April 2019, Ekornes QM Holding AS issued a stock exchange bond to refinance the Group. As a result, the loan from Qumei Runto S.A.R.L. to Ekornes QM Holding AS of NOK 1 832,4 million including accrued interest as of 31 March 2019, was paid in full in April 2019.

The Group regularly assesses its capital structure and risk profile

(Figures in NOK 000)

Short-term borrowing agreement 31 December 2019	Credit facility	Amount drawn	Available
DNB	500 000	0	500 000
Sparebank Møre	250 000	0	250 000
Total	**750 000**	**0**	**750 000**

Long-term borrowing agreement 31 December 2019
The Group has a long-term borrowing agreement with DNB. The loan of NOK 500 000 is unsecured. No instalments are payable before maturity in September 2022. Interest expenses are paid quarterly.

Senior Secured Bond at 31 December 2019
In April 2019, Ekornes QM Holding AS issued a stock exchange bond to refinance the Group. The bond was listed on Oslo Stock Exchange 10 July under the name "Ekornes QM Holding AS 19/23 FRN FLOOR C" , Ticker: EKO01

No instalments are payable before maturity in October 2023 and interest expenses are paid quarterly. NIBOR is adjusted at the end of each quarter and at 31. December 2019 the coupon was 8.77%. For first quarter 2020 the coupon is 8.86%.

Currency	NOK
Issue Amount	2 000 000
NIBOR 3M	1,77 %
Margin	7,00 %
Coupon	8,77 %
Tenor / redemption:	54 months /4,5 years
Settlement Date:	02.04.2019
Maturity Date:	02.10.2023

The changes in interest-bearing debt through the period 1 January to 31 December 2019 are as follows:

(Figures in NOK 000)

Internal interest-bearing debt	
Opening balance 1. January	**2 088 782**
Debt conversion	-191 201
Change in internal loan	-1 897 582
Closing balance internal interest-bearing debt 31. December	**0**

External interest-bearing debt	
Opening balance 1. January	**611 878**
Change in net short-term debt - Bank	-111 878
Change external debt - Bond	1 976 027
Closing balance external debt 31. December	**2 476 027**

Total interest-bearing debt 31 December 2019	**2 476 027**

NOTE 14 Interest-bearing loans and credits facilities (contd.)

During 2019 and at 31 December 2019, the company was in compliance with the covenants under the bank-agreement in DnB and the bond agreement.

Covenants under the bond agreement:
Minimum liquidity: Liquidity of minimum NOK 125,000,000 on an unconsolidated basis in the Issuer (at all times and measured at each Quarter Date)
Financial covenant: Net debt / Adj. EBITDA starting at 5.25x for year 1 and 2, 5.00x for year 3, 4.50x for year 4 and 4.00x for year 5, with equity cure (max. 3 times) counting as EBITDA for the for the subsequent three quarterly reporting periods.

NOTE 15 Tax related costs

(Figures in NOK 000)

Tax expense included in net result:	**2019**	**2018**
Period taxes:		
Tax payable in the period	44 328	36 147
Deferred tax		
Changes in deferred tax liability	-17 622	-33 019
Tax expense	**26 705**	**3 125**
Reconciliation of effective tax rates		
Earnings before tax	127 351	13 600
Tax calculated at 22% (23 %)	**28 017**	**3 128**
Effect of other tax rates	-6 705	3 503
Permanent differences	4 916	-190
Withholding tax without credit deductions	0	38
Effects from changes to tax rate in Norway	0	-3 284
Other	478	-70
Tax expense	**26 705**	**3 125**
Deferred tax assets	66 887	81 718
Deferred tax liabilities	878 950	983 154
Net deferred tax	**-812 063**	**-901 436**

The Group recognises deferred tax assets and liabilities net only if the Group has a legal right to set them off against each other, and only deferred tax assets and liabilities within the same tax regime.

As at 31 December 2019, the Group had a tax-loss carryforward of NOK 21.2 million. NOK 16.6 million of this was capitalised as at 31 December 2019. Deferred tax assets relating to tax-loss carryforwards in one of our subsidiaries have not been recognised as at 31 December 2019, since the company does not expect to utilise the loss in the foreseeable future.

Published on 8 October 2018, the 2019 National Budget proposes to amend the Norwegian interest deduction limitation rules. The amended rules apply to companies that are part of a consolidated group, and limit interest deductions on bank loans, bonds and other debt to unrelated parties. The threshold amount, which determines whether the rules apply, is increased to NOK 25 million. Where the threshold amount is exceeded, deductions are limited to 25 % of taxable EBITDA. Further, an equity escape clause is introduced, granting full deductions for interests if the taxpayer is able to demonstrate that the equity ratio in the Norwegian part of the company or the Norwegian part of the group is about the same as in the Qumei Home Furnishing group. Ekornes has calculated the tax cost based on the assumptions that the group will be able to document the equity clause and that we can get a full deduction on all interest cost in 2019.

NOTE 15 Tax related costs (contd.)

Net Deferred tax at	31.12.2019	31.12.2018
Intangible assets	-726 521	-797 599
Property, plant & equipment*	-128 096	-161 951
Inventory	24 618	30 946
Receivables	24	-920
Pensions	-118	577
Provisions	2 534	6 945
Other items	-1 092	1 756
Tax-loss carried forward	16 588	18 811
Net Deferred tax at	**-812 063**	**-901 436**

***Reassessment PPA**
In connection with the purchase price allocation following the acquisition of Ekornes AS, excess values were identified related to brand names, customer relationships, real estate and fixed assets. Deferred tax relating to allocated excess values at the time of acquisition was estimated and capitalized with NOK 995 million. See note 24 Business combinations. Ekornes has during the year carried out a more detailed analysis, updated the measurement of deferred tax liabilities related to the excess values and the technical implementation of the purchase price allocation. The updated implementation estimates a reduction of the deferred tax liabilities at the acquisition date of NOK 84 million with a corresponding reduction of the goodwill. The effect from the changes has been recognized in the balance sheet at year-end 2019 but has not been considered material for restatement of comparative information in prior periods as the change had no effect on equity at the date of acquisition, and only clearly insignificant effect on profit and loss in the comparative period.

The Group's carry forward tax deficit at 31.12.2019 has the following maturity:

	31.12.2019	31.12.2018
2020	2 720	1 052
2021	2 142	2 115
2022	4 542	4 935
2023	1 543	7 079
2024	254	0
No final maturity date	10 045	14 887
Total tax loss carryforward	**21 247**	**30 067**

Tax payable in the balance sheet	31.12.2019	31.12.2018
Payable taxes accrued by business combinations	0	49 021
Tax payable for the year	44 328	12 129
Tax payable paid during the year	17 046	13 688
Tax payable in the balance sheet	**27 282**	**74 840**

Taxes from Consolidated Statement of Comprehensive Income	2019	2018
Translation differences	12 749	0
Tax on translation differences for loans to subsidiaries	-41	-106
Total transferred over comprehensive income	**12 709**	**-106**

NOTE 16 Employee benefits

Board of Directors' declaration on the remuneration policy applying to senior executives
A major element of the remuneration policy established with respect to Ekornes QM Holding AS and its subsidiaries is that executives should be offered competitive terms, with a salary comparable to similar positions in their national labour markets. The Company has established performance-related bonus schemes that form a major part of the overall compensation package offered to profit-centre managers. Salary and other remunerations are mainly adjusted in accordance with developments in salary/price levels in the country in which the position is located.

Pension commitments
A Group pension scheme (defined contribution plan) has been established for employees of the Group's Norwegian companies and in most of its foreign subsidiaries. The Group also has certain pension liabilities expensed continuously. For accounting purposes, pension schemes are treated in accordance to IAS 19. Norway's new AFP early retirement scheme is deemed to be a defined benefit multi-enterprise scheme. In principle, the liability shall be calculated and recognised. However, the scheme's current administrator is, for practical reasons, unable to perform these calculations. Until these calculations are made, the new AFP early retirement scheme must be recognised as a defined contribution scheme. See table below.

Mandatory occupational pension scheme
Pursuant to the Norwegian Mandatory Occupational Pensions Act, all the Group's Norwegian subsidiaries must establish a pension scheme for their employees. These companies have pension schemes that comply with Norwegian law.

Pension costs
The pension costs of The Group for the financial year was NOK 35.4 million, which is almost entirely comprised of defined contribution pension; only two companies in The Group operate with defined benefit pension; Ekornes K.K in Japan and Ekornes Möbelvertriebs GmbH in Germany.

Pension liabilities (Figures in NOK 000)	31.12.2019	31.12.2018
Accumulated pension liabilities	6 011	6 053

The pension liability relates to two of the Group's non-Norwegian subsidiaries.

Bonus-based incentives
Ekornes QM Holding Group has bonus-based remuneration for all employees in the operating companies who do not have any other personal bonus scheme. The bonus-based remuneration will be based on achieved results for 2019.The bonus is paid on a pro rata basis according to the number of months employed during the year. Only those employed as at 31 December 2019, as well as those retiring during 2019, are entitled to receive a bonus for 2019. For accounting purposes, the bonus is treated as a cash bonus. Employees in the Stressless® segment will receive a bonus equivalent to 41% per cent of their monthly salary. No bonus for 2019 will be paid to employees in the IMG and Svane® segment.

See Note 17 for details of remuneration and salary paid to group management.

NOTE 17 Related parties

The Group's related parties comprise members of the board and management, as well as companies those individuals control or have a significant influence over.

Ruihai Zhao, who chairs the board of directors, is one of the primary shareholders of Qumei Home Furnishings Group. IMG sells furniture in the Chinese market through Qumei's stores in China. The agreement regulating these transactions has been entered into at market terms and on the basis of the arm's length principle.

Individual bonus agreements were entered into with group management for 2019. 70 per cent of the bonus depends on the revenues and operating margin of the Group or individual segment, while 30 per cent depends on non-financial performance targets. CEO Olav Holst-Dyrnes had a separate bonus agreement, the terms of which are determined by the board. The bonuses payable to group management are included in salary in the table below.

With the understanding of the board of directors, board member Nils Gunnar Hjellegjerde (he was director in Ekornes AS until 9th May 2019), who has particular expertise in the area of product and market development in the furniture sector, acted as an hourly paid consultant to the group management. Mr. Hjellegjerde also has shares in Hove D.K. Co., Ltd. (Thailand), which supplies laminate products to Ekornes AS's subsidiary IMG Group AS, of which he was the main shareholder until the company was sold to Ekornes AS in 2014. The agreement in question expired in the end of second quarter 2019 and was at market terms and based on the arm's length principle.

The following tables show the renumeration to the Group Management, as well as to the members of the boards of operating company Ekornes AS and The Group.

The renumeration is for 2018 proportionally adjusted for the owner period of Ekornes QM Holding AS.

Remuneration to members of Group Management in 2019

(Figures in NOK)	Olav Holst-Dyrnes	Trine-Marie Hagen*	Mette Toft Bjørgen**	Øystein Vikingsen Fauske	James Tate
Salaries	3 736 692	1 911 720	594 999	1 959 953	2 439 928
Pension	79 387	52 925	19 847	79 387	389 217
Other remunerations	45 380	31 573	8 756	20 498	62 245
Total	**3 861 459**	**1 996 218**	**623 602**	**2 059 838**	**2 891 390**

* Member of Group Management until 15. August 2019
** Member og Group Management from 1. October 2019

Remuneration to Board Members in 2019

(Figures in NOK)	Nora Førisdal Larssen	Ruihai Zhao	Kjersti Kleven*	Stian Ekornes	Lars Ivar Røiri
Salaries	0	0	0	0	0
Pension	0	0	0	0	0
Directors' fee	175 000	0	175 000	350 000	675 000
Other remunerations	0	0	42 245	0	0
Total	**175 000**	**0**	**217 245**	**350 000**	**675 000**

Remuneration to Board Members in 2019

(Figures in NOK)	Lei Yang	Tine Gottlob Wollebekk*	Nils Gunnar Hjellegjerde*	Tone Helen Hanken**
Salaries	0	0	0	407 352
Pension	0	0	0	17 656
Directors' fee	175 000	175 000	175 000	65 000
Other remunerations	0	0	5 945	1 820
Total	**175 000**	**175 000**	**180 945**	**491 828**

NOTE 17 Related parties (cont.)

Remuneration to Board Members in 2019

(Figures in NOK)	Knut Ove Rygg**	Arnstein Edgard Johannessen **	Atle Berntzen	Sveinung Utgård ***	Ove Skåre***
Salaries	956 586	409 456	526 464	849 958	412 441
Pension	58 262	16 906	21 656	48 558	17 656
Directors' fee	97 500	65 000	130 000	65 000	65 000
Other remunerations	25 756	2 147	11 015	12 783	2 744
Total	**1 138 104**	**493 509**	**689 135**	**976 299**	**497 841**

* Member of Board of Directors until 5. June 2019
** Member of Board of Directors until 2. October 2019
*** Member of Board of Directors from 2. October 2019

Remuneration to members of Group Management in 2018

(Figures in NOK)	Olav Holst-Dyrnes	Trine-Marie Hagen*	Øystein Vikingsen Fauske	James Tate
Salaries	1 418 759	833 197	683 950	733 324
Pension	25 674	25 674	25 674	13 681
Other remunerations	13 809	12 871	5 815	0
Total	**1 458 242**	**871 742**	**715 440**	**747 004**

Remuneration to Board Members in 2018

(Figures in NOK)	Nora Førisdal Larssen	Kjersti Kleven	Stian Ekornes	Lars Ivar Røiri	Tine Gottlob Kirstan Wollebekk
Salaries	0	0	0	0	0
Pension costs	0	0	0	0	0
Directors' fee	203 333	148 333	116 667	136 667	150 000
Other remuneration	0	0	0	0	0
Total	**203 333**	**148 333**	**116 667**	**136 667**	**150 000**

Remuneration to Board Members in 2018

(Figures in NOK)	Nils Gunnar Hjellegjerde	Tone Helen Hanken	Knut Ove Rygg	Arnstein Edgard Johannessen	Atle Berntzen
Salaries	0	116 634	323 449	144 411	174 417
Pension costs	0	5 104	19 420	5 356	7 772
Directors' fee	116 667	60 000	60 000	60 000	60 000
Other remuneration	826 075	1 022	6 153	2 834	4 535
Total	**942 742**	**182 760**	**409 022**	**212 601**	**246 724**

NOTE 18 Shares and shareholders

The Norwegian ultimate parent company Ekornes QM Holding AS is a wholly owned subsidiary of Qumei Home Furnishing Group Co., Ltd in China. Qumei Home Furnishing Group Co., Ltd is listed on Shanghai Stock exchange.

As of 31 December 2018 and 31 December 2019, Ekornes QM Holding's registered share capital comprised 30 000 ordinary shares. All shares have a face value of NOK 4.00. All shares in the company have equal voting and dividend rights. All shares give equal rights to the company's net assets. Ekornes QM Holding AS has no treasury shares as of 31 December 2018 or 31 December 2019.

The calculation of earnings per share and diluted earnings per share is shown in Note 13 Earnings per share.

As at 31 December 2018 and 31 December 2019, the company's sole shareholder was

Shareholder	Country	No. of shares held	Percentage
Qumei Runto S.A.R.L.	Luxembourg	30 000	100 %

As at 31 December 2018 and 31 December 2019, the board has been granted the following authorisations:
The board has been granted no authorisations.

NOTE 19 Group entities

The following subsidiaries are included in Ekornes QM Holding AS's consolidated financial statements.

Ekornes QM Holding AS has a 90.5% interest in Ekornes Holding AS, the other 9.5% is owned by Ruisi Holding Company Limited. Ekornes Holding AS has 100% voting and ownership in all other group companies through Ekornes AS.

Company	Primary business activity	Registered office	Domicile
Ekornes Holding AS	Holding company	Oslo	Norway
Ekornes AS	HQ/Administration	Ikornnes	Norway
J. E. Ekornes AS	Production	Ikornnes	Norway
Ekornes Skandinavia AS	Sales	Ikornnes	Norway
J. E. Ekornes ApS	Sales	Odense	Denmark
Ekornes K.K	Sales	Tokyo	Japan
OY Ekornes AB	Sales	Helsinki	Finland
Ekornes Inc.	Sales	Somerset, NJ	US
Ekornes Ltd.	Sales	London	UK
Ekornes Möbelvertriebs GmbH	Sales	Hamburg	Germany
Ekornes S.A.R.L	Sales	Pau	France
Ekornes Iberica SL	Sales	Barcelona	Spain
Ekornes Singapore PTE. Ltd.	Sales	Singapore	Singapore
Ekornes Pty Ltd	Sales	Sydney	Australia
Ekornes Asia Pacific Co Ltd	Sales	Bangkok	Thailand
Ekornes China Co, Ltd.	Sales	Shanghai	China
J. E. Ekornes USA, Inc	Production	Morganton, NC	US
Ekornes Taiwan Ltd.	Sales	Taipei	US
Ekornes Hong Kong Co, Ltd	Sales	Hong Kong SDR.	China
Ekornes Beds AS	Production and sales	Fetsund	Norway
Ekornes Beds GmbH	Sales	Hamburg	Germany
IMG Group AS	Holding og sales	Sykkylven	Norway
IMG Skandinavia AS	Sales	Sykkylven	Norway
IMG Holdco AS	Holding	Sykkylven	Norway
IMG AS	Sales	Sykkylven	Norway
IMG Europe GmbH	Sales	Hamburg	Germany
IMG (Vietnam) Co., Ltd.	Production and sales	Binh Duong	Vietnam
IMG Australia PTY Ltd	Sales	Melbourne	Australia
IMGC PTY Ltd	Sales	Melbourne	Australia
IMG (THAILAND) LIMITED	Production and sales	Chachoengsao	Thailand
IMG New Zealand Limited	Sales	Auckland	New Zealand
IMG Lithuania UAB	Production and sales	Panevezys	Lithuania
International Mobel Group USA, Inc.	Sales	Corona, CA	US

Changes in group structure in 2019

In February 2019 Ekornes Skandinavia AS and Ekornes Contract AS merged. Ekornes Skandinavia AS took over the entire business operations, comprising assets, rights and liabilities, from its sister company Ekornes Contract AS. The merger was undertaken with effect for accounting purposes from 1 January 2019. The purpose of the merger was to simplify the Group structure.

The sales company Ekornes Malaysia Sdn Bhd has been struck off the register and dissolved in May 2019. The company has been dormant for several years.

Ekornes AS bought the company Brunholmsgate 8 II AS in June 2019 and merged the company. Brunholmsgata 8 II AS owned the basement of Ekornes`s showroom in Ålesund and Ekornes AS owns now 100% of the building.

NOTE 20 Leasing agreements

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term ("right-of-use asset"). The standard includes a number of optional practical expedients related to recognition and initial application. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Effective 1 January 2019 the Group adopted IFRS 16 using the modified retrospective approach and accordingly comparative information has not been restated. The Group recognized the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings.

Determining whether a contract is or contains a lease
On the transition to IFRS 16, the Group elected to not reassess whether a contract is, or contains a lease, as a practical expedient. The Group applied IFRS 16 only to contracts that were previously identified as leases.

Leases previously classified as operating leases under IAS 17
At the date of initial application of IFRS 16, the Group measured lease liabilities at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate. The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.6%. Further, the Group recognized right-of-use assets at an amount equal to the lease liability adjusted by the amount of any prepaid or accrued lease payments.

The Group has applied the following practical expedients to leases previously classified as operating leases at the date on initial application:

- Exemption for short-term leases (defined as 12 months or less)
- Exemption for low value assets (< NOK 25 000)
- Excluded any initial direct costs from the measurement of the right-of-use asset
- Applied hindsight when determining the lease term for contracts containing options

(Figures in NOK 000) Right-of-use assets	**Operating movables**	**Machinery and equipment**	**Office, warehouse and sites**	**Total**
Acquisition cost 1 January 2019	7 564	809	111 927	**120 299**
Addition of right-of-use assets	9 351	859	35 457	**45 667**
Disposals	-438	-22	-1 870	**-2 330**
Currency exchange differences	52	-1	1 930	**1 980**
Acquisition cost 31 December 2019	**16 528**	**1 645**	**147 443**	**165 617**

Accumulated depreciation and impairment 1 January 2019	**Operating movables**	**Machinery and equipment**	**Office, warehouse and sites**	**Total**
Depreciation	-5 825	-564	-30 381	**-36 770**
Disposals	536	22	1 877	**2 434**
Currency exchange differences	-2	-2	-101	**-104**
Accumulated depreciation and impairment 31 December 2019	**-5 290**	**-544**	**-28 605**	**-34 439**
Carrying amount of right-of-use assets 31 December 2019	**11 238**	**1 101**	**118 838**	**131 177**

NOTE 20 Leasing agreements (contd.)

Lease liabilities:

Undiscounted lease liabilities and maturity of cash outflows	**Total**
First year	37 184
One to two years	27 726
Two to three years	17 798
Three to four years	14 342
Four to five years	12 084
More than five years	37 856
Total undiscounted lease liabilities at 31 December 2019	**146 990**

Current lease liabilities	34 205
Non-current lease liabilities	100 440
Total lease liabilities at 31 December 2019	**134 645**

Total cash outflows for leases	-36 468
Interest expense on lease liabilities	-3 331

	2019
Short term leases and low-value leases recognised on a straight-line basis as expense	2 112

NOTE 21 Research & development

In 2019, research and development costs totalling NOK 35.0 million (NOK 18.6 million in 2018) were recognised in expenses. These costs relate to salaries and other expenses, as well as the depreciation of capitalised R&D costs.

Costs directly associated with the development of a fixed operating asset are included in the capitalised value of the asset if all the criteria for capitalisation have been met. Expenses that arise early in the project phase, as well as maintenance costs, are recognised in expenses as they arise. Capitalised development costs totalled NOK 0 million in 2019 (NOK 5.4 million in 2018).

NOTE 22 Financial risk

The Group operates in many markets, on both the sales and purchasing sides. The means the company has a natural spread with respect to its market, foreign exchange and sourcing risk. For The Group, financial risk is largely associated with fluctuations in exchange rates (NOK vs other countries' currencies), interest rate risk deriving from changes in interest rates and credit risk in the form of the ability of the Group's customers to pay what they owe (trade receivables).

Customer and credit risk

The Group sells its products to distributors through its own sales companies and the customers are generally furniture retailers. The Group has more than 4,000 customers, with the largest group of stores accounting for around 6 per cent of sales revenues. The largest single customer accounts for around 1.1 per cent of total sales revenues. Routines have been established to ensure that sales are made to creditworthy customers and within specific credit limits to lessen market and credit risk. Customer and credit risk is considered low. Outstanding receivables are followed up on an ongoing basis and efforts are made to keep them at a reasonable level. An analysis of expected losses is carried out at the close of each reporting period. The estimation reflects the probability-weighted outcome, the time-value of money and reasonable and verifiable information about events and actual conditions available on the reporting date. Trade receivables will generally be written off if they have fallen due for payment one year or more in the past and no debt recovery process is ongoing. Based on the fact that The Group generally has B2B customers, few receivables overdue and historically few bad debts, the assessment of expected losses has not led to any material change in the provision for bad debts as at 31 December 2019. The table below show details of the Group's exposure to credit risk on trade receivables using a provision matrix.

(Figures in NOK 000)	Total	Not due	<30 d	30-60d	60-90d	>90d
31.12.2019	388 987	312 894	64 008	4 464	2 095	5 527
Expected default rate		1,0 %	1,0 %	2,6 %	18,0 %	50,0 %
Expected credit losses	7 024	3 129	640	114	377	2 764

(Figures in NOK 000)	Total	Not due	<30 d	30-60d	60-90d	>90d
31.12.2018	385 216	234 525	97 179	34 217	7 646	11 648
Expected default rate		0,1 %	0,6 %	3,3 %	18,7 %	19,7 %
Expected credit losses	5 728	286	573	1 146	1 432	2 291

Interest-rate risk

Interest-rate risk is the risk of fluctuations in future cash flows from a financial instrument as a result of changes in market rates. The Group's exposure to interest rates is primarily related to its short-term and long-term borrowings at floating interest rates. Loans at floating interest rates represent an interest-rate risk for the Group's cash flow, which is partly offset by the opposite effect of cash and cash equivalents at floating interest. The borrowing portfolio is currently at a floating rate of interest, which means the Group is affected by changes in interest rates. At the close of 2019, the Group had total interest-bearing debt of NOK 2 476 million. The Group has a stable financing structure. Lenders are well-reputed Norwegian banks and a bond listed on Oslo Stock exchange. The table below shows sensitivity to a potential change in interest rates on that part of the Group's affected borrowings. The estimate is based on actual loans at the end of 2019, and by keeping all other variables remaining constant the Group's profit/loss and equity before tax will be affected as follows by changes in debt instruments at floating interest rates.

(Figures in NOK 000)	Increase/decrease in base points	Effect on profit/loss before tax	Effect before tax on equity
31.12.2019	100	24 760	24 760
31.12.2018	100	26 966	26 966

NOTE 22 Financial risk (contd.)

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages this risk by ensuring, as far as possible, that it always has sufficient liquidity available to meet its obligations both under normal and challenging circumstances, and without incurring unacceptable losses or risk of damaging the Group's reputation. At the close of 2019, the Group had cash reserves of NOK 312.8 million in the form of bank deposits, of which NOK 21.1 million was restricted to the payment of employees' tax deductions and NOK 125 million restricted is part of the bond condition is to have a minimum liquidity in Ekornes QM Holding AS. In addition, the Group had unused drawing rights of NOK 750.0 million. The board considers the Group's liquidity situation to be satisfactory. The table below shows a maturity analysis for the Group's financial liabilities based on contractual, non-discounted payments. When a counterparty has a choice about when an amount is to be paid, the liability is included at the earliest date the business can expect to receive payment. Financial liabilities which must be repaid upon demand are included in the "<1 year" column.

	Remaining term					
31.12.2019 (Figures in NOK 000)	**<1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**More than 5 years**	**Total**
Financial liabilities						
Interest-bearing debt - Bond	175 200	175 200	175 200	2 146 000	0	**2 671 600**
Interest-bearing debt - Bank	15 350	15 350	511 513	0	0	**542 213**
Dividend	10 545	0	0	0	0	**10 545**
Leasing	37 184	27 726	17 798	26 426	37 856	**146 990**
Trade payables and other liabilities	375 369	2 175	2 175	0	6 011	**385 731**
Derivatives						
Forward currency contracts	2 552	0	0	0	0	**2 552**
Total	**616 200**	**220 451**	**706 686**	**2 172 426**	**43 867**	**3 759 630**

	Remaining term					
31.12.2018 (Figures in NOK 000)	**<1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**More than 5 years**	**Total**
Financial liabilities						
Bank loans	111 878	0	0	500 000	0	**611 878**
Loans from related parties	2 088 782	0	0	0	0	**2 088 782**
Trade payables and other liabilities	474 854	2 000	4 492	0	4 053	**485 399**
Derivatives						
Forward currency contracts	23 622	0	0	0	0	**23 622**
Total	**2 699 136**	**2 000**	**4 492**	**500 000**	**4 053**	**3 209 682**

NOTE 22 Financial risk (contd.)

Foreign exchange risk

The Group sells its products internationally, and bills its customers primarily in the respective countries' own currencies. The Group manages all matters related to currency and foreign exchange risk from head office. Currency hedging is an integral part of The Group's operational activities.

As part of the company's efforts to reduce its foreign exchange risk/currency exposure The Group also seeks to purchase goods and services for use in Norway on international markets, where cost-effective. Together with the Group's distribution, sales and marketing activities, and associated administrative organization, this provides natural operational hedging of the company's foreign exchange risk (natural hedging) for part of its cash flow. In addition to natural hedging, the company uses forward contracts for additional currency hedging. This does not reduce the long-term foreign exchange risk, but provides predictability within the hedging horizon. In addition to natural hedging, the company uses forward contracts for further currency hedging. According to the group's strategy, 80 per cent of the expected currency exposure in the coming six-month period is hedged in currencies where the expected annual exposure exceeds NOK 75 million, and correspondingly for 50 per cent of the expected exposure in the coming 6-12-month period. Financial risk is primarily associated with fluctuations in exchange rates and the ability of the Group's customers to pay what they owe. The Group's competitiveness is affected, over time, by movements in the value of the NOK in relation to other currencies. The Group actively seeks to limit this risk.

The following average exchange rates applied to forward contracts exercised in the period:

Currency	Volume (in NOK)	Volume (in Currency)	Average exchange rate (in NOK)
AUD	66 739 921	11 110 000	6,0072
DKK	53 843 976	41 490 000	1,2978
EUR	274 398 219	28 310 000	9,6926
GBP	82 503 482	7 590 010	10,8700
USD	101 790 020	12 740 000	7,9898

New forward contracts

In 2019, the Group entered into new forward contracts, and all realised and unrealised gains and losses associated with these contracts are recognised in net other losses/(gains). In 2019, these new contacts resulted in a NOK 21.7 million realised loss. All new contracts that are open as at 31 December 2019 fall due for payment in 2020. As at 31 December 2019, the market value of existing forward currency contracts came to NOK -2.5 million. The forward currency contracts mature in the following periods:

(Figures in NOK 000) Market value of forward contracts	31.12.2019	31.12.2018
Share in 2019	0	-23 622
Share in 2020	-2 552	0
Total	**-2 552**	**-23 622**

Total net other losses/(gains) comprises:	2019	4.1.-31.12.2018
Realised losses/(gains) on new forward contracts	-21 675	1 188
Change in value of realised and unrealised contracts	21 070	14 030
Net other losses/(gains)	**605**	**15 218**

NOTE 22 Financial risk (contd.)

Classifications of financial assets and financial liabilities 31 December 2019

(Figures in NOK 000)	Fair value through profit and loss	Amortised cost Bank and receivables	Amortised cost Other financial liabilities
Cash & cash equivalents	0	312 804	0
Forward currency contracts	-2 552	0	0
Stocks & shares in other enterprises	1 333	0	0
Trade & other current receivables	0	464 742	0
Non-current receivables	0	15 536	0
Long-term debt to credit institutions	0	0	500 000
Long-term debt related to bond issued	0	0	1 981 555
Trade & other current payables	0	0	510 599
TOTAL	**-1 218**	**793 082**	**2 992 154**

Classifications of financial assets and financial liabilities 31 December 2018

(Figures in NOK 000)	Fair value through profit and loss	Amortised cost Bank and receivables	Amortised cost Other financial liabilities
Cash & cash equivalents	0	107 595	0
Forward currency contracts	-23 622	0	0
Stocks & shares in other enterprises	1 333	0	0
Trade & other current receivables	0	494 836	0
Non-current receivables	0	15 536	0
Long-term debt to credit institutions	0	0	500 000
Trade & other current payables	0	0	474 854
Short-term debt to related parties	0	0	2 088 782
Short-term debt to credit institutions	0	0	111 878
TOTAL	**-22 279**	**620 256**	**3 175 514**

NOTE 23 Revenue from contracts with customers

The Group sells its products through sales companies it has established in the most important markets, while production takes place at factories which supply the sales companies. Goods produced are sent directly from the factory to the customer, with the exception of US and Asian customers where goods are sent to a dedicated storage facility. For IMG, goods are sent from factories in Vietnam and Thailand directly to the customer or to storage facilities owned by IMG's own sales companies. The goods sent from the factories to dedicated storage facilities abroad are treated as goods in transit. IMG has both production to order and off-the-shelf production.

The Group's most important delivery liability derives from products made to the customer's specification and orders. To determine at when the delivery liability is fulfilled and control of the delivered products are transferred to the customer, Ekornes use the principles of Incoterms. Thus, it is the Incoterms principles that determine when the delivery liability is fulfilled, and control of the products are transferred to the customer. When control is achieved by the customer, all risks related to the products are transferred from Ekornes to the customer as well. At the point when the delivery liability is fulfilled, control is transferred and the customer bears the risks with the products, the Group recognizes operating revenues.

The Group's most important discretionary judgement with respect to applying IFRS 15 relates to the calculation of the transaction price. This is because the price to the customer includes several different discounts and bonuses. The estimation of bonuses for the year in particular reacquire the exercise of discretionary judgement.

A breakdown of The Group's operating revenues by segment and customer location may be found in Note 1 “Product areas, segments and markets”.

NOTE 24 Business combinations

In August 2018, 100% of the shares in Ekornes ASA were acquired by Qumei Home Furnishing and the financial institution Huatai Securities. The companies hold 90,5% and 9,5% respectively in Ekornes Holding AS, which is 100% owner of the Ekornes Group. A cash consideration of NOK 139 per share was paid. As a result of the transaction, Ekornes AS was removed from the stock exchange on 1 October 2018.

In connection with the acquisition, all identifiable assets and liabilities are valued at fair value at the date of acquisition, which is set at August 31 2018. The table below shows the consideration divided between acquired assets and liabilities, and goodwill.

NOTE 24 Business combinations (contd.)

(All figures in NOK 000)	
Compensation	**31.08.2018**
Purchase price	5 128 125
Total business compensation	**5 128 125**
Carrying amount of identified property and liabilities from merger	
Brand name	1 656 419
Customer relations	1 302 291
Software and licenses	47 156
Deferred taxes	60 956
Total intellectual property	**3 066 822**
Property, plant and equipment	1 430 038
Other long-term assets and investments	31 032
Total capital assets	**1 461 070**
Accounts receivable	329 994
Other short-term receivables	83 688
Inventory	570 776
Cash and cash equivalents	80 471
Total current assets	**1 064 929**
Total assets acquired	**5 592 820**
Long term interest-bearing debt	-500 000
Long term provisions	-2 635
Pension liabilities	-5 369
Deferred taxes	-995 430
Total long-term obligations	**-1 503 433**
Short term interest-bearing debt	-203 400
Currency forward contracts	-9 592
Accounts payable	-136 516
Payable taxes	-49 021
Public charges payable	-48 996
Other short-term debt	-159 313
Total short-term debt	**-606 837**
Total repossessed obligations	**-2 110 270**
Total identifies net assets	3 482 550
Goodwill	1 645 575
Net assets at acquisition	**5 128 125**

NOTE 24 Business combinations (contd.)

Goodwill related to the acquisition represents the acquisition of an established operating organization and employees, as well as strong underlying profitability and future synergies related to the acquired business. The goodwill is not tax deductible.

NOK 13,8 million has been expensed in acquisition costs in the Group's income statement. There are no significant contingent considerations or contingent liabilities relating to the acquisition. If the acquisition of Ekornes ASA was completed on 1 January 2019, the year's result would have been NOK 202,6 million.

In connection with the purchase price allocation, excess values were identified related to brand names, customer relationships, real estate and fixed assets. Deferred tax relating to allocated excess values at the time of acquisition was capitalized at NOK 995 million. See note 15 related to reassessment PPA and change in deferred tax liabilities 31.12.2019.

The identified excess values are distributed among the following assets:	
Working capital and assets	688 402
Brand	1 656 419
Customer relations	1 302 291

See note 8 Property, Plant, Equipment and Intangible assets for further descriptions.
See note 10 Accounts receivable for the assessment of acquired accounts receivable at the time of acquisition

NOTE 25 Reconciliation for liabilities arising from financing activities

Reconciliation of changes in liabilities arising from financing activities is shown in the tables below:

				Non-cash changes			
31.12.2018 (Figures in NOK 000)	**01.01. 2019**	**Cash flows**	**Implementation IFRS 16**	**Annual meeting**	**Debt convertion**	**Other**	**31.12. 2019**
Interest-bearing debt - Bond		1 981 555	0	0	0	-5 527	1 976 027
Interest-bearing debt - Related parties	2 088 782	-1 897 582	0	0	-191 201	0	0
Interest-bearing debt - Bank	500 000	0	0	0	0	0	500 000
Interest-bearing debt - Bank	111 878	-111 878	0	0	0	0	0
Lease liabilities	0	-36 468	171 114	0	0	0	134 645
Payment of dividend	0	-11 495	0	22 040	0	0	10 545
Total liabilities from financing activities	**2 700 660**	**-75 868**	**171 114**	**22 040**	**-191 201**	**-5 527**	**2 621 218**

Debt converion

On 28 September 2018, Ekornes Holding AS entered into two loan agreements with respectively Ekornes QM Holding AS and Ruisi Holding Company Limited (Luxembourg) in connection with the acquisition Ekornes AS . As part of the settlement of the financing structure set up by the group in relation the acquisition of Ekornes AS, the board carried out a share capital increase towards Ekornes QM Holding AS and Ruisi Holding Company Limited (Luxembourg), by increasing the par value of the Company's shares with NOK 1. The payment for the share capital increase was settled by way of setting off the outstanding amount under the Loan Agreements. For the non-controlling interst the debt convertion amounts to TNOK 191 201.

NOTE 26 Subsequent events

We have under subesequent event in the board of directors report informed about the effect of the Covid-19 virus for the group in 2020.

No other significant events have occurred between the balance sheet date and the date of publication of the financial statements which have materially affected the Company's financial position, and which should have been reflected in the financial statements here presented.

Financial statements

Ekornes QM Holding AS

INCOME STATEMENT FOR EKORNES QM HOLDING AS

(Figures in NOK 000)	Notes	2019	4.1. - 31.12. 2018
Operating income and operating expenses			
Other operating expenses	6	5 769	30
Total operating expenses		**5 769**	**30**
OPERATING EARNINGS		**-5 769**	**-30**
Financial income and expenses			
Income from subsidiaries	7	201 361	71 592
Interest income from group companies	7	7 518	14 611
Other interest income	7	1 364	0
Net gains (losses) on foreign exchange	7	14 881	-26 207
Interest expense to group companies	7	29 978	14 810
Other interest expenses	7	138 962	5
Net financial items		**56 184**	**45 180**
Profit before tax		**50 415**	**45 150**
Tax	5	11 091	-5 817
Profit after tax		**39 324**	**50 967**
Brought forward			
Allocated to other equity		39 324	50 967
Net brought forward		**39 324**	**50 967**

BALANCE SHEET
EKORNES QM HOLDING AS

ASSETS (Figures in NOK 000)	Notes	31.12.2019	31.12.2018
Intangible assets			
Deferred tax assets	5	0	5 817
Total intangible assets		**0**	**5 817**
Financial fixed assets			
Investments in subsidiaries	1	4 489 885	2 676 860
Total financial fixed assets		**4 489 885**	**2 676 860**
Total fixed assets		**4 489 885**	**2 682 677**
Current assets			
Other short-term receivables		159	0
Receivables from group companies	2	256 566	2 066 864
Total receivables		**256 726**	**2 066 864**
Cash and bank deposits	**8**	**179 647**	**41**
Total current assets		**436 372**	**2 066 905**
Total assets		**4 926 258**	**4 749 583**

(Continued on next page)

BALANCE SHEET
EKORNES QM HOLDING AS (contd.)

EQUITY AND LIABILITIES (Figures in NOK 000)	Notes	31.12.2019	31.12.2018
Equity			
Paid-up equity			
Share capital	3 , 4	120	120
Share premium reserve	3	2 807 354	2 807 354
Total paid-up equity		**2 807 474**	**2 807 474**
Retained earnings			
Other equity	3	90 291	50 967
Total retained earnings		**90 291**	**50 967**
Total equity		**2 897 765**	**2 858 441**
Liabilities			
Deferred tax	5	5 274	0
Other long-term liabilities			
Bonds	8	1 981 555	0
Total of other long-term liabilities		**1 981 555**	**0**
Current debt			
Trade creditors		2 763	0
Liabilities to group companies	2	0	1 891 141
Other current debt	8	38 902	0
Total current debt		**41 664**	**1 891 141**
Total liabilities		**2 028 493**	**1 891 141**
Total equity and liabilities		**4 926 258**	**4 749 583**

Oslo , 3 April 2020

The board of Ekornes QM Holding AS

Ruihai Zhao
Chair

Mogens Falsig
Director and CEO

STATEMENT OF CASH FLOW EKORNES QM HOLDING AS

(Figures in NOK 000)	Note	2019	4.1. - 31.12. 2018
Cash flow from operations			
Profit before income taxes		50 415	45 150
Dividend/Group contribution not received		-201 361	-71 592
Interest income		-8 882	-14 611
Interest expenses		168 940	14 810
Gain / loss currency exchange		-14 881	26 207
Change in trade payables		2 763	0
Change in other accruals		-56 103	0
Net cash flow from operations		**-59 110**	**-35**
Cash flow from investments			
Purchase of shares and investments in other companies	1	0	-2 281 513
Dividends from subsidiary		154 755	0
Net cash flow from investments		**154 755**	**-2 281 513**
Cash flow from financing			
Change in net long-term debt - Bond	8	1 981 555	0
Change in long term loans	2	-1 897 600	1 838 325
Change in loan to Ekornes Holding AS		0	-1 843 378
New equity received		0	2 287 334
Net cash flow from financing		**83 955**	**2 282 280**
Exchange gains / (losses) on cash and cash equivalents		6	-691
Net change in cash and cash equivalents		179 606	41
Cash and cash equivalents at the beginning of the period		41	0
Cash and cash equivalents at the end of the period	**8**	**179 647**	**41**

ACCOUNTING PRINCIPLES

BASIC PRINCIPLES – ASSESSMENT AND CLASSIFICATION

The financial statements comprise the income statement, the balance sheet, cash flow statement and notes to the financial statements. They have been prepared in accordance with the Norwegian Accounting Act and generally accepted accounting practice in Norway, as applicable at 31 December 2019. The notes are therefore an integral part of the financial statements for the year.

The financial statements are based on the fundamental principles of historic cost, comparability, going concern, congruence and prudence. Transactions are recognized at the value of the consideration on the date of the transaction. Revenues are recognized when they are earned and costs are matched with earned revenues.

The accounting principles are elaborated below. Assets/liabilities relating to the production cycle, and items falling due for payment within a year of the balance date, are classified as current assets/current liabilities. Current assets/current liabilities are valued at the lower/higher of acquisition cost and fair value. Fair value is defined as the estimated future sales price, less anticipated sales costs. Other assets are classified as non-current assets. Non-current assets are valued at acquisition cost. Non-current assets, whose value falls over time, are depreciated. If the value of an asset is impaired and the impairment is not expected to be of a temporary nature, the value of the non-current asset is written down. Similar principles normally also apply to liabilities.

FOREIGN CURRENCY

Transactions in foreign currencies are translated based on monthly exchange rates. Monetary items denominated in foreign currencies are translated at the rate of exchange on the balance sheet date. Translation differences are recognized in profit and loss as gain/loss on foreign exchange. Non-monetary assets and liabilities that are measured at historic cost in a foreign currency are translated at the exchange rate in effect when the transaction takes place. Non-monetary assets and liabilities that are recognized at fair value are translated to NOK at the exchange rate in effect when fair value is determined..

SUBSIDIARIES

Subsidiaries are valued at cost in the company accounts. The investment is valued as cost of the shares in the subsidiary, less any impairment losses An impairment loss is recognised if the impairment is not considered temporary, in accordance with generally accepted accounting principles. Impairment losses are reversed if the reason for the impairment loss disappears in a lather period.

Dividends, group contributions and other distributions from subsidiaries are recognised in the same year as they are recognised in the financial statement of the provider. If dividends / group contribution exceed withheld profits after the acquisition date, the excess amount represents repayment of invested capital, and the distribution will be deducted from the recorded value of the acquisition in the balance sheet for the parent company.

FINANCIAL LIABILITIES

Loans, borrowings and payables are recognised at fair value net of directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. The effective interest method amortisation is included as finance costs in the income statement.

Payables are measured at their nominal amount when the effect of discounting is not material.

MAJOR INDIVIDUAL TRANSACTIONS

The effects of major individual transactions are shown on separate lines in the income statement and/or commented on in the notes.

RELATED PARTIES

Related parties are defined as group companies, major shareholders, directors of the Company or its subsidiaries, and senior executives. Agreements relating to the remuneration paid to the board of directors and senior executives are detailed in note 6.

DEFERRED TAX AND TAX EXPENSE

Deferred tax liabilities are calculated on the basis of temporary differences between the carrying values recognized in the financial statements for the year and the carrying values recognized for tax purposes. A nominal tax rate is used for calculation purposes. Positive and negative differences are set off against each other within the same period. A deferred tax asset arises if temporary differences give rise to a future tax deduction. The tax expense for the year comprises changes in deferred tax liabilities and deferred tax assets as well as tax payable for the financial year.

NOTE 1 Subsidiary

Ekornes QM Holding AS has 90,5% ownership and voting right in Ekornes Holding AS.

(Figures in NOK 000)	Location	Ownership/ voting right	Result last year (100%)	Equity 31.12 (100%)	Book value 31.12
Ekornes Holding AS	Oslo	90,5 %	160 613	4 922 960	4 489 885
Book value investments in subsidiaries at 31.12.19		**90,5 %**	**160 613**	**4 922 960**	**4 489 885**

Debt Conversion in Ekornes Holding AS

On 28 September 2018, Ekornes Holding AS entered into two loan agreements with respectively Ekornes QM Holding AS and Ruisi Holding Company Limited (Luxembourg) in connection with the acquisition Ekornes AS. As part of the settlement of the financing structure set up by the group in relation the acquisition of Ekornes AS, the board carried out a share capital increase towards Ekornes QM Holding AS and Ruisi Holding Company Limited (Luxembourg), by increasing the par value of the Company's shares with NOK 1. The payment for the share capital increase was settled by way of setting off the outstanding amount under the Loan Agreements. The proportionate ownership between Ekornes QM Holding AS and Ruisi Holding Company Limited (Luxembourg) remains unchanged following the share capital increase, with respectively 905 000 shares that represent 90.5% of the share capital and the votes in Ekornes Holding AS, and 95 000 shares that represent 9.5% of the share capital and the votes in Ekornes Holding AS.

NOTE 2 Balance with related parties

(Figures in NOK 000)	31.12.2019	31.12.2018
Other short-term receivables		
Dividend Ekornes Holding AS	55 205	196 385
Group contribution Ekornes Holding AS	201 361	0
Short-term receivable Ekornes Holding AS	0	1 870 479
Total	**256 566**	**2 066 864**
Short-term liabilities		
Short-term liabilities Qumei Runto S.A.R.L.	0	1 891 141
Total	**0**	**1 891 141**

Short-term receivable and short-term debt is interest-bearing with terms at arm's length and maturity within one year. The receivable towards Ekornes Holding AS has been converted into equity in March 2019. The loan to Qumei Runto S.A.R.L. was repaid in April 2019.

Financial income and expenses from / to related parties are listed in note 7.

NOTE 3 Shareholders' equity

(Figures in NOK 000)	Share capital	Share premium	Other equity	Total
Equity 31.12.2018	**120**	**2 807 354**	**50 967**	**2 858 441**
Profit for the year			39 324	**39 324**
Equity 31.12.2019	**120**	**2 807 354**	**90 291**	**2 897 765**

NOTE 4 Share capital and shareholder information

As of 31 December 2019, Ekornes QM Holding's registered share capital comprised 30 000 ordinary shares. All shares have a face value of NOK 4.00. All shares in the company have equal voting and dividend rights. All shares give equal rights to the company's net assets. Ekornes QM Holding AS has no treasury shares as of 31 December 2019.

As at 31 December 2019, the company's sole shareholder was:

Shareholder	Country	No. of shares held	Percentage
Qumei Runto S.A.R.L.	Luxembourg	30 000	100 %

As at 31 December 2019, the board has been granted the following authorisations:
The board has been granted no authorisations.

NOTE 5 Taxes

(Figures in NOK 000)	2019	2018	
Components of the income tax expense			
Change of deferred tax	11 091	-5 817	
Tax expense	**11 091**	**-5 817**	
Basis for tax payable			
Profit before taxes	50 415	45 150	
Permanent differences	0	-71 592	
Temporary differences	-23 973	-26 442	
Deficit to carry	-26 442	26 442	
Taxable income (basis for payable taxes in the balance sheet)	**0**	**0**	
Reconciliation of the tax expense			
Result before taxes	50 415	45 150	
Calculated tax	**11 091**	**10 384**	
Tax of permanent differences	0	-16 466	
Effect of changed tax rate	0	264	
Total	**11 091**	**-5 817**	
Effective tax rate in	22,0 %	-12,9 %	
Calculation of deferred tax/deferred tax benefit	**31.12.19**	**31.12.18**	**Change**
Other	23 973	0	-23 973
Total	**23 973**	**0**	**-23 973**
Loss carried forward	0	-26 442	-26 442
Basis for deferred tax	**23 973**	**-26 442**	**-50 415**
Deferred tax/(Deferred tax benefit) (22% / 23%)	**5 274**	**-5 817**	**-11 091**
Effect of changed tax rate		264	

NOTE 6 Other operating expenses

The company has no employees. Neither the chairman of the Board, nor the general manager, has any bonus agreement or any severance pay agreement.

Expensed audit fee (Figures in NOK 000)	**2019**	**4.1 - 31.12.2018**
Statutory auditing services	2 635	0
Other certification services	1 554	0
Other non-auditing services	7	0
Tax advisory services	0	0
Total	**4 197**	**0**

Auditing fees are stated including VAT.

NOTE 7 Specification of financial income and expenses

(Figures in NOK 000) **Financial income**	**2019**	**4.1 - 31.12.2018**
Dividend Ekornes Holding AS	0	71 592
Group Contribution Ekornes Holding AS	201 361	0
Interest income Ekornes Holding AS	7 518	14 611
Other interest expenses	1 364	0
Total financial income	**210 243**	**86 203**
Net gains (losses) on foreign exchange	14 881	-26 207
Financial expenses		
Interest expenses Qumei Runto S.A.R.L.*	29 978	14 810
Interest expenses Bond	138 796	0
Other interest expenses	166	5
Total financial expenses	**168 940**	**14 815**

*The interest expense consists of interest on the loan between Ekornes QM Holding AS and Qumei Runto S.A.R.L and a termination fee of NOK 19.5 million. The loan to Qumei Runto S.A.R.L. was repaid in April 2019.

NOTE 8 Bond

In April 2019, Ekornes QM Holding AS issued a stock exchange bond to refinance the Group. As a result, the loan from Qumei Runto S.A.R.L. to Ekornes QM Holding AS of NOK 1 832,4 million including accrued interest as of 31 March 2019, was paid in full in April 2019.

Senior Secured Bond at 31 December 2019
In April 2019, Ekornes QM Holding AS issued a stock exchange bond to refinance the Group. The bond was listed on Oslo Stock Exchange 10 July under the name "Ekornes QM Holding AS 19/23 FRN FLOOR C" , Ticker: EKO01.

No instalments are payable before maturity in October 2023 and interest expenses are paid quarterly. NIBOR is adjusted at the end of each quarter and at 31. December 2019 the coupon was 8.77%. For first quarter 2020 the coupon is 8.86%.

Bond details

Currency	**NOK**
Issue Amount	2 000 000
NIBOR 3M	1,77 %
Margin	7,00 %
Coupon	8,77 %
Tenor / redemption:	54 months /4,5 years
Settlement Date:	02.04.2019
Maturity Date:	02.10.2023

During 2019 and at 31 December 2019, the company was in compliance with the covenants under the bond agreement.

Covenants under the bond agreement:
Minimum liquidity: Liquidity of minimum NOK 125 million on an unconsolidated basis in the Issuer (at all times and measured at each Quarter Date). The amount of NOK 125 million is classified as restricted cash.

Financial covenant: Net debt / Adj. EBITDA for the group starting at 5.25x for year 1 and 2, 5.00x for year 3, 4.50x for year 4 and 4.00x for year 5, with equity cure (max. 3 times) counting as EBITDA for the for the subsequent three quarterly reporting periods.

NOTE 9 Subsequent events

We have under subesequent event in the board of directors report informed about the effect of the Covid-19 virus for the group in 2020.

No other significant events have occurred between the balance sheet date and the date of publication of the financial statements which have materially affected the Company's financial position and which should have been reflected in the financial statements here presented.

STATEMENT PURSUANT TO SECTION 5-5 OF THE SECURITIES TRADING ACT

We hereby confirm that the annual accounts for the Group and the company for 2019 to the best of our knowledge have been prepared in accordance with applicable accounting standards and give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the company taken as a whole.

The Directors' report gives a true and fair view of the development and performance of the business and the position of the Group and the company, as well as a description of the principal risks and uncertainties facing the Group.

Oslo , 3 April 2020

The board of Ekornes QM Holding AS

Ruihai Zhao
Chairman of the board

Mogens Falsig
Director and CEO

To the General Meeting of Ekornes QM Holding AS

Independent Auditor's Report

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Ekornes QM Holding AS, which comprise:

- The financial statements of the parent company Ekornes QM Holding AS (the Company), which comprise the balance sheet as at 31 December 2019, the income statement and statement of cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and
- The consolidated financial statements of Ekornes QM Holding AS and its subsidiaries (the Group), which comprise the balance sheet as at 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion:

- The financial statements are prepared in accordance with the law and regulations.
- The accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway.
- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company and the Group as required by laws and regulations, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Independent Auditor's Report - Ekornes QM Holding AS

Key Audit Matter	How our audit addressed the Key Audit Matter
Accrual of operating revenue	
As described in item M(i), in the accounting policies, operating revenue are recognized when delivery to customer has occurred and control has been transferred to the customer. Different terms of delivery apply, and timing of revenue recognition varies accordingly. Revenue is primarily recognized when goods are delivered to the place determined by the customer. Access to information regarding delivery status from third party transporters vary. Revenue recognition is mainly based on confirmation on completed deliveries from transporters. Where such information is unavailable, the time of revenue recognition is based on estimated delivery time. Ekornes manufacturing comprises both made to order and made for inventory production. The goods are dispatched from the factory to customers in a global market. The extent of goods in transit at the end of the reporting period is therefore significant. We focused our attention on operating revenue accruals at the end of the reporting period, as misstatements, if any, may impact the financial statements significantly.	We have gained an understanding of the flow of goods from factory to customer, applied delivery terms and the Group's policies for revenue recognition through interviews with key personnel, review of the Group's process documentation and we reviewed a selection of costumer contracts. In addition, we assessed the note disclosure in item M(i) to the financial statement which describes the group's accounting principles for recognition of operating revenues. For customers where agreed terms of delivery required that the goods had to be received by the customers before recognition of revenue could occur at Ekornes; we obtained confirmations for selected customers that receipt of goods had taken place in the same period as Ekornes recognised revenue. The procedures performed showed that revenue was recognised appropriately. Where estimation of delivery time formed the basis for the revenue recognition, we challenged management's estimates by comparing them to historic numbers as well as to our independent estimate. The procedures performed showed that estimated delivery times were reasonable. We also applied IT based sampling methods to identify non-standard journal entries towards operating revenues recognised in the financial statements. Further, for each category of non-standard entries we assessed the type and reasonableness of these entries, towards underlying transactions and documentation. Our procedures did not reveal any misstatements of significance.
Impairment assessment intangible assets	
Ekornes QM Holding Group ("Group") has recognised goodwill of NOK 1 561 million, brand name of NOK 1 602 million and customer relationship of NOK 1 269 millions in the balance sheet as of 31 December 2019. The goodwill and other intangible assets are related to the acquisition of Ekornes AS in August 2018. Goodwill with an indefinite useful life is subject to impairment assessments annually. The Board of Directors have carried out an impairment	We obtained and reviewed management's impairment assessment of goodwill. The documentation contained an assessment of the cash generating units and key assumptions applied by management. We considered whether the model contained the elements and methodology required by IFRS. We found the model to be reasonable and in accordance with our expectations. Our procedures to evaluate management's impairment assessment included challenging key assumptions

Independent Auditor's Report - Ekornes QM Holding AS

assessment as of 31 December 2019 and concluded with no recognition of impairment loss in the income statement for 2019.

Goodwill and other intangible assets are allocated to groups of cash generating units identified in accordance with two of the Group's operating segments, Stressless and IMG. The impairment assessment of goodwill showed that the recoverable amount was higher than carrying amount for both segments, and that consequently no impairment was required.

The valuations require that management apply judgement related to, among other, future cash flows and discount rate applied. We focus on this area due to the magnitude of the amount of goodwill and other intangible assets recognised and due to judgements made by management when determining the assumptions applied to support the valuation of goodwill and other intangible assets.

We refer to disclosures in note 3 for the Group's accounting policy for impairment of goodwill and other intangible assets, and to note 8 where the Board of Directors explain their valuation process for the Group's goodwill and other intangible assets.

such as revenue growth, operating margins, reinvestments and changes in net working capital through meetings with management. We assessed the reasonableness of the prognosis for the two segments compared to historical performance, budgets approved by the Board, management forecast and long-term strategic plans. We also considered external available information relevant to the industry and our own knowledge of the industry. In order to assess the reasonableness of the discount rate applied by management, we compared key components with external market data.

All together, we found management's conclusion and assumptions to be within a reasonable range. However, we observed that goodwill for the IMG segment is sensitive to even small changes in some of the key assumptions in the discounted cash flow model.

Finally, we evaluated the adequacy of the disclosures to the financial statements and found them to appropriately explain management's valuation process and the uncertainties inherent in some of management's assumptions.

New tax regulations

In 2019, the Norwegian Tax Authorities introduced new interest deduction limitation rules which apply to companies part of a consolidated group. However, the guidelines and interpretation from the Tax Authorities were finally published at the end of February 2020.

The new regulations limit interest deductions on bank loans, bonds and other debt. The threshold amount, which determines whether the rules apply, is NOK 25m. In cases where the threshold amount is exceeded, interest deductions are limited to 25% of taxable EBITDA. The Group had net interest expenses amounted to NOK 178m in 2019.

Further, an equity escape clause is

We obtained and reviewed management assessment and implementation of the new tax regulations. The documentation shows that the calculated equity ratio in the Norwegian part of the group is higher than the equity ratio for the consolidated Qumei Group, thus that the company qualifies for the equity escape clause and full deduction of interest expenses.

Our work directed at the Norwegian part of the group included an audit of the consolidated balance sheet for the Norwegian part of the Group. This included an assessment of whether the consolidated statements used qualifying reporting standards, whether the consolidation was correct, and whether distribution of excess values and goodwill was reasonable. We discussed with management and challenged their assumptions and interpretation of the new tax regulations.

Independent Auditor's Report - Ekornes QM Holding AS

introduced, granting full deductions for interests if the taxpayer is able to demonstrate that the equity ratio in the Norwegian part of the group is approximately the same or higher than the Qumei Home Furnishings Group ("Qumei Group") taken as a whole. Management concluded that they qualify for the equity escape clause and consequently tax expenses in the financial statements reflect this conclusion. We focused on this area due to the impact potential non-compliance with the new tax regulations may have on the financial statements, the inherent risk that interpretation of new regulations always entails, and the level of judgment involved in assessing compliance. The use of judgment is mainly related to allocation of excess values and goodwill. The consequences of non-compliance will affect tax expenses and tax liabilities. We refer to Note 15 for disclosures on the Group's tax calculations.	Our assessment included a review of management adaptation of equal accounting standards and valuation principles, as well as adjustments and allocation of excess values in the group. Our work directed at the Qumei Group level, included whether the financial statements were prepared using a qualifying set of financial reporting standards. We found that the Qumei Group has prepared their financial statements under Chinese GAAP. We reviewed the consolidated financial statements prepared under Chinese GAAP. Further we discussed adjustments necessary to convert the financial statements from Chinese GAAP to IFRS with management and their local auditor for 2018, Pan China. We verified that Pan China had issued a clean audit opinion on the financial statements prepared under Chinese GAAP. Finally, we compared the equity ratio for the Norwegian part of the group with the equity ratio for Qumei Group to verify the assumption that the Group qualifies for the equity escape clause. In order to fully qualify for the equity escape clause, management assured us that they will prepare a second set of financial statements in accordance with IFRS completed with notes and audited within the deadline for the tax filings for 2019. We also read and assessed the relevant disclosures in the financial statements. We found the conclusion made by management and Board of Directors to be reasonable.

Other information

Management is responsible for the other information. The other information comprises information in the annual report, except the financial statements and our auditor's report thereon.

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director (Management) are responsible for the preparation in accordance with law and regulations, including fair presentation of the financial statements of the Company in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway, and for the preparation and fair presentation of the consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's and the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern. The financial statements of the Company use the going concern basis of accounting insofar as it is not likely that the enterprise will cease operations. The consolidated financial statements of the Group use the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

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

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Board of Directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Board of Directors' report and in the statements on Corporate Governance and Corporate Social Responsibility concerning the financial statements, the going concern assumption and the proposed allocation of the result is consistent with the financial statements and complies with the law and regulations.

Opinion on Registration and Documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements *(ISAE) 3000, Assurance Engagements Other than Audits or Reviews of Historical Financial Information*, it is our opinion that management has fulfilled its duty to produce a proper and clearly set out registration and documentation of the Company's accounting information in accordance with the law and bookkeeping standards and practices generally accepted in Norway.

Bergen, 3 April 2020

PricewaterhouseCoopers AS

Fredrik Gabrielsen

State Authorised Public Accountant

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