
Zoetis Denmark ApS

Gammelgårdsvej 87 C, DK-3520 Farum

Annual Report for 1 December 2017 - 30 November 2018

CVR No 10 01 92 65

The Annual Report was
presented and adopted at
the Annual General

Meeting of the Company on Type text here
23/4 2019



Chairman

Henrik Moltke

Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Management's Review	
Company Information	5
Financial Highlights	6
Management's Review	7
Financial Statements	
Income Statement 1 December - 30 November	9
Balance Sheet 30 November	10
Statement of Changes in Equity	12
Notes to the Financial Statements	13

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Zoetis Denmark ApS for the financial year 1 December 2017 - 30 November 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 30 November 2018 of the Company and of the results of the Company operations for 2017/18.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.


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

Farum, 23 april 2019

Executive Board


Henrik Just Bjerregaard

Board of Directors


Carl-Johan Vilhelm Ehn
Chairman


Henrik Just Bjerregaard


Niels Kristian Bau-Madsen

Independent Auditor's Report

To the Shareholder of Zoetis Denmark ApS

Opinion

We have audited the Financial Statements of Zoetis Denmark ApS for the financial year 1 December 2017 - 30 November 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The Financial Statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 30 November 2018 and of the results of the Company's operations for the financial year 1 December 2017 - 30 November 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the Financial Statements

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

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

Independent Auditor's Report

audit. We also:

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

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

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information re-

Independent Auditor's Report

quired under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Copenhagen, 23 April 2019

KPMG

Statsautoriseret Revisionspartnerselskab

CVR No 25 57 81 98



Kenn Wolff Hansen

statsautoriseret revisor

mne30154

Company Information

The Company

Zoetis Denmark ApS
Gammelgårdsvej 87 C
DK-3520 Farum

Telephone: + 45 70207303

Facsimile: + 45 70207304

CVR No: 10 01 92 65

Financial period: 1 December - 30 November

Municipality of reg. office: Furesø

Board of Directors

Carl-Johan Vilhelm Ehn, Chairman

Henrik Just Bjerregaard

Niels Kristian Bau-Madsen

Executive Board

Henrik Just Bjerregaard

Auditors

KPMG

Statsautoriseret Revisionspartnerselskab

Dampfærgevej 28

DK-2100 København Ø

Financial Highlights

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

	2017/18 TDKK	2016/17 TDKK	2016 - 11 months TDKK	2015 TDKK	2014 TDKK
Key figures					
Profit/loss					
Gross profit/loss	30,474	24,535	21,808	29,865	26,857
Operating profit/loss	-12,370	-7,841	-1,996	6,891	4,751
Profit/loss before financial income and expenses	-12,370	-7,481	-1,996	6,891	4,751
Net financials	-123	-386	-579	-152	-128
Net profit/loss for the year	-12,492	-7,497	176	10,316	4,623
Balance sheet					
Balance sheet total	138,311	141,923	65,124	51,371	41,705
Equity	27,183	39,675	47,172	46,996	35,290
Investment in property, plant and equipment	-27,229	-22,360	-6,888	-1,383	-686
Number of employees	81	60	36	31	28
Ratios					
Return on assets	-8.9%	-5.3%	-3.1%	13.4%	11.4%
Solvency ratio	19.7%	28.0%	72.4%	91.5%	84.6%
Return on equity	-37.4%	-17.3%	0.4%	25.1%	14.0%

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

Management's Review

Key activities

Zoetis Denmark ApS (ZOD) designs, develops, produces and sells diagnostic products to the veterinarian field consisting of analyzers with Lab-on-a-chip based onetime use cartridges.

Development in the year

The income statement of the Company for 2017/18 shows a loss of DKK 12,492,349, and at 30 November 2018 the balance sheet of the Company shows equity of DKK 27,182,595.

ZOD is part of the Zoetis group. Functions, such as certain development initiatives are compensated by the Zoetis Group. ZOD has a production site for microfluidic based products, which are sold by the group, distributors and as white label products. The group has invested significantly in the company during the year as reflected in the growth in employees, facilities and production capability.

The past year and follow-up on development expectations from last year

The net result of -12 million DKK for the year is in line with expectations for the year and is considered satisfactory by management.

Capital resources

The Company has lost more than half of the share capital, and will within the next 6 months take the necessary legal actions.

Special risks - operating risks and financial risks

Operating risks

The company is a hub for development and production of analyzers with Lab-on-a-chip based onetime use cartridges for veterinarian use. It is important for the company to be at the cutting edge of the development within microfluidic development and engineering, and having the ability to attract and keep employees with qualifications and experience facilitating this objective.

Liquidity risks

Because the company is owned by Zoetis Inc, the company is not depended on external financing or credit risk, because these are managed by a dedicated treasury group in Zoetis.

Targets and expectations for the year ahead

The Company expects to continue its investments in production capability and product development. The continued efforts will be financed through earnings as well as through financing by the Zoetis Group to the extend required.

Management's Review

Intellectual capital resources

The ability of the company to attract and retain highly educated employees is essential to its continuous success, including biologists, engineers with expertise in hard and software development and production. To ensure continuous competitive products, the company is investing in modern production facilities and research environments.

Uncertainty relating to recognition and measurement

Reference is made to note no. 1 in respect of uncertainty regarding development projects.

Income Statement 1 December - 30 November

	<u>Note</u>	<u>2017/18</u> DKK	<u>2016/17</u> DKK
Gross profit/loss		30,473,613	24,534,508
Staff expenses	3	-37,333,206	-27,477,194
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	<u>-5,510,012</u>	<u>-4,538,750</u>
Profit/loss before financial income and expenses		-12,369,605	-7,481,436
Financial expenses	5	<u>-122,744</u>	<u>-385,677</u>
Profit/loss before tax		-12,492,349	-7,867,113
Tax on profit/loss for the year	6	<u>0</u>	<u>370,211</u>
Net profit/loss for the year		<u>-12,492,349</u>	<u>-7,496,902</u>

Balance Sheet 30 November

Assets

	Note	2018 DKK	2017 DKK
Completed development projects		5,916,402	7,792,661
Acquired patents		1,192,155	1,264,285
Development projects in progress		<u>31,452,587</u>	<u>31,452,587</u>
Intangible assets	7	<u>38,561,144</u>	<u>40,509,533</u>
Plant and machinery		27,444,326	17,518,423
Other fixtures and fittings, tools and equipment		11,178,543	3,699,730
Leasehold improvements		<u>16,077,817</u>	<u>9,815,003</u>
Property, plant and equipment	8	<u>54,700,686</u>	<u>31,033,156</u>
Deposits		<u>966,413</u>	<u>902,964</u>
Fixed asset investments	9	<u>966,413</u>	<u>902,964</u>
Fixed assets		<u>94,228,243</u>	<u>72,445,653</u>
Inventories		<u>11,964,237</u>	<u>7,476,876</u>
Trade receivables		1,237,844	4,266,833
Receivables from group enterprises		21,989,762	45,907,291
Other receivables		<u>1,444,510</u>	<u>2,400,822</u>
Receivables		<u>24,672,116</u>	<u>52,574,946</u>
Cash at bank and in hand		<u>7,446,269</u>	<u>9,425,219</u>
Currents assets		<u>44,082,622</u>	<u>69,477,041</u>
Assets		<u>138,310,865</u>	<u>141,922,694</u>

Balance Sheet 30 November

Liabilities and equity

	Note	2018 DKK	2017 DKK
Share capital		66,238,265	66,238,265
Share premium account		0	700,000
Reserve for development costs		12,506,122	12,506,122
Retained earnings		-51,561,792	-39,769,443
Equity	10	27,182,595	39,674,944
Lease obligations		146,126	667,554
Payables to group enterprises		90,591,884	84,999,900
Long-term debt	12	90,738,010	85,667,454
Lease obligations	12	519,144	296,712
Trade payables		6,115,793	4,244,530
Payables to group enterprises	12	0	3,069,449
Other payables		13,755,323	8,969,605
Short-term debt		20,390,260	16,580,296
Debt		111,128,270	102,247,750
Liabilities and equity		138,310,865	141,922,694
Uncertainties regarding recognition and measurement	1		
Subsequent events	2		
Distribution of profit	11		
Contingent assets, liabilities and other financial obligations	13		
Related parties	14		
Accounting Policies	15		

Statement of Changes in Equity

	Share capital	Share premium account	Reserve for development costs	Retained earnings	Total
	DKK	DKK	DKK	DKK	DKK
Equity at 1 December 2017	66,238,265	700,000	12,506,122	-39,769,443	39,674,944
Net profit/loss for the year	0	0	0	-12,492,349	-12,492,349
Transfer from share premium account	0	-700,000	0	700,000	0
Equity at 30 November 2018	66,238,265	0	12,506,122	-51,561,792	27,182,595

The Company has for the financial year 2017-18 changed status from a reporting class B company to a reporting class medium C. In connection with this development cost arising since 1 January 2016 has been recognised as a reserve on the equity. The comparative figures have been adjusted.

Notes to the Financial Statements

1 Uncertainties regarding recognition and measurement

In accordance with its accounting policies, the Company has recognised direct costs for development projects less depreciations in the amount of DKK 37,369 thousand. Included in this amount is costs for the development of specific products already launched of DKK 5,916 thousand and DKK 31,453 thousand related to development of products which are expected to be launched in future years.

The value of development cost is associated with uncertainty because the value depends on the future earnings from the products developed. Based on the estimated sales forecast, Management estimates that the future earnings from the products developed will exceed the carrying amount of the development projects recognised as intangible assets.

2 Subsequent events

There have been no events after the balance sheet date which could materially affect the assessment of the annual report for the period 1 December 2017 – 30 November 2018.

3 Staff expenses

	2017/18 DKK	2016/17 DKK
Wages and salaries	32,949,657	24,604,867
Pensions	4,187,463	2,730,024
Other social security expenses	196,086	142,303
	37,333,206	27,477,194
Including remuneration to:		
Executive Board	3,814,098	3,949,705
	3,814,098	3,949,705
Average number of employees	81	60

Notes to the Financial Statements

	<u>2017/18</u>	<u>2016/17</u>
	DKK	DKK
4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	1,948,389	3,075,619
Depreciation of property, plant and equipment	<u>3,561,623</u>	<u>1,463,131</u>
	<u>5,510,012</u>	<u>4,538,750</u>
Which is specified as follows:		
Completed development projects	1,876,259	1,876,259
Acquired patents	72,130	1,199,360
Plant and machinery	2,055,637	1,316,063
Other fixtures and fittings, tools and equipment	451,599	87,264
Leasehold improvements	<u>1,054,387</u>	<u>59,804</u>
	<u>5,510,012</u>	<u>4,538,750</u>
5 Financial expenses		
Interest paid to group enterprises	1	0
Other financial expenses	14,802	102,447
Exchange loss	<u>107,941</u>	<u>283,230</u>
	<u>122,744</u>	<u>385,677</u>

Notes to the Financial Statements

	<u>2017/18</u>	<u>2016/17</u>
	DKK	DKK
6 Tax on profit/loss for the year		
Current tax for the year	0	0
Adjustment of tax concerning previous years	0	-370,211
	<u>0</u>	<u>-370,211</u>

7 Intangible assets

	Completed development projects	Acquired pa- tents	Development projects in progress	Total
	DKK	DKK	DKK	DKK
Cost at 1 December 2017	35,619,888	2,609,263	31,452,587	69,681,738
Cost at 30 November 2018	35,619,888	2,609,263	31,452,587	69,681,738
Impairment losses and amortisation at 1 December 2017	27,827,227	1,344,978	0	29,172,205
Amortisation for the year	1,876,259	72,130	0	1,948,389
Impairment losses and amortisation at 30 November 2018	29,703,486	1,417,108	0	31,120,594
Carrying amount at 30 November 2018	<u>5,916,402</u>	<u>1,192,155</u>	<u>31,452,587</u>	<u>38,561,144</u>

Development projects relates to continuing developments of analyzers with Lab-on-a-chip based onetime use cartridges. The projects are progressing according to plan.

Notes to the Financial Statements

8 Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
	DKK	DKK	DKK	DKK
Cost at 1 December 2017	33,433,466	4,638,911	14,829,708	52,902,085
Additions for the year	11,981,540	7,930,412	7,317,201	27,229,153
Cost at 30 November 2018	<u>45,415,006</u>	<u>12,569,323</u>	<u>22,146,909</u>	<u>80,131,238</u>
Impairment losses and depreciation at 1 December 2017	15,915,043	939,181	5,014,705	21,868,929
Depreciation for the year	2,055,637	451,599	1,054,387	3,561,623
Impairment losses and depreciation at 30 November 2018	<u>17,970,680</u>	<u>1,390,780</u>	<u>6,069,092</u>	<u>25,430,552</u>
Carrying amount at 30 November 2018	<u>27,444,326</u>	<u>11,178,543</u>	<u>16,077,817</u>	<u>54,700,686</u>
Including assets under finance leases amounting to	<u>1,089,203</u>	<u>0</u>	<u>0</u>	<u>1,089,203</u>

9 Fixed asset investments

	Deposits
	DKK
Cost at 1 December 2017	902,964
Additions for the year	63,449
Cost at 30 November 2018	<u>966,413</u>
Carrying amount at 30 November 2018	<u>966,413</u>

Notes to the Financial Statements

10 Equity

The share capital is broken down as follow:

	<u>Number</u>	<u>Nominal value</u> DKK
A-shares	26,238,265	26,238,265
B-shares	40,000,000	40,000,000
		<u>66,238,265</u>

There have been no changes in the share capital during the last 5 years.

11 Distribution of profit

	<u>2017/18</u> DKK	<u>2016/17</u> DKK
Retained earnings	-12,492,349	-7,496,902
	<u>-12,492,349</u>	<u>-7,496,902</u>

12 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

Lease obligations

Between 1 and 5 years	<u>146,126</u>	<u>667,554</u>
Long-term part	146,126	667,554
Within 1 year	<u>519,144</u>	<u>296,712</u>
	<u>665,270</u>	<u>964,266</u>

Payables to group enterprises

Between 1 and 5 years	<u>90,591,884</u>	<u>84,999,900</u>
Long-term part	90,591,884	84,999,900
Other short-term debt to group enterprises	<u>0</u>	<u>3,069,449</u>
	<u>90,591,884</u>	<u>88,069,349</u>

Notes to the Financial Statements

	2018 DKK	2017 DKK
--	-------------	-------------

13 Contingent assets, liabilities and other financial obligations

Contingent assets

The tax value of the Company's unutilised tax losses and deferred tax on other items, calculated with a tax rate of 22%, is approximately DKK 6,4 Million.

Rental and lease obligations

Rental and lease obligations, period of non-terminability up to 48 months	3,547,825	3,174,000
---	-----------	-----------

Other contingent liabilities

The Company has entered into a development contract with a third party. The contract holds certain development commitments for the Company.

14 Related parties

Basis

Controlling interest

Zoetis Overseas Holding Cooperatief U.A., Netherlands	Parent
---	--------

Transactions

During the year, the Company had the following transactions with related parties:

Sales to related parties DKK 5,771,605 (DKK 138,229 in FY17)

Development cost recharged to group companies DKK 61,147,054 (DKK 45,851,936 in FY17)

Receivables from related parties DKK 21,989,762 (DKK 45,907,291 in FY17)

Loan from related parties DKK 90,591,884 (DKK 66,699,900 in FY17)

Payables to related parties DKK 0 (DKK 3,069,449 in FY17)

Notes to the Financial Statements

14 Related parties (continued)

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Ultimate Parent Company of the largest and smallest group:

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

The Group Annual Report of Zoetis Inc. may be obtained at the following address:

10 Sylvan Way, Parsippany, New Jersey 07054, USA.

Notes to the Financial Statements

15 Accounting Policies

The Annual Report of Zoetis Denmark ApS for 2017/18 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2017/18 are presented in DKK.

Cash flow statement

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

Recognition and measurement

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

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

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

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

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in

Notes to the Financial Statements

15 Accounting Policies (continued)

the income statement on a straight-line basis over the lease term.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

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

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Notes to the Financial Statements

15 Accounting Policies (continued)

Staff expenses

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

Amortisation, depreciation and impairment losses

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

Other operating income and expenses

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

Financial income and expenses

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

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Balance Sheet

Intangible assets

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 10 years.

Development costs comprise cost including wages and salaries and amortisation that directly can be attributed to the company's development activities and fulfil the recognition requirements. Capitalised development costs are measured at the lower of cost less accumulated amortisation and recoverable amount.

Capitalised development costs are amortised on a straight-line basis after completion of the development work over the estimated useful life.

The amortisation period is 5-10 years.

Development costs not fulfilling the requirement for recognition in the balance sheet are charged to

Notes to the Financial Statements

15 Accounting Policies (continued)

expenses in the year when they are paid.

Property, plant and equipment

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

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Plant and machinery	4-10 years
Other fixtures and fittings, tools etc.	4 years
Leasehold improvements	4 years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

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

Inventories

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

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour.

Notes to the Financial Statements

15 Accounting Policies (continued)

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning e.g. rent, insurance premiums, subscriptions and interest etc.

Equity

Dividend

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

Deferred tax assets and liabilities

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

Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

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

Financial debts

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

Notes to the Financial Statements

15 Accounting Policies (continued)

Financial liabilities also include the capitalised residual obligation on finance leases.

Other liabilities are measured at net realisable value.

Financial Highlights

Explanation of financial ratios

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