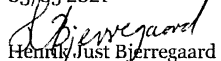

Zoetis Denmark ApS

Gammelgårdsvej 87 C, DK-3520 Farum

Annual Report for 1 December 2019 - 30 November 2020

CVR No 10 01 92 65

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
03/05 2021


Henrik Just Bjerregaard
Chairman of the General
Meeting

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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 2019 - 30 November 2020.

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 2020 of the Company and of the results of the Company operations for 2019/20.

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, 3 May 2021

Executive Board


Henrik Just Bjerregaard
CEO

Board of Directors


Carl-Johan Vilhelm Ehn
Chairman


Henrik Just Bjerregaard


Martin Heller

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 2019 - 30 November 2020 comprising income statement, balance sheet, statement of changes in equity, and notes, including 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 Company's assets, liabilities and financial position at 30 November 2020 and of the results of the Company's operations for the financial year 1 December 2019 - 30 November 2020 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.

Independent Auditor's Report

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

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

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

Statement on Management's Review

Management is responsible for Management's Review.

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

In connection with our audit of the Financial Statements, our responsibility is to read Management's 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.

Independent Auditor's Report

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 3 May 2021

KPMG

Statsautoriseret Revisionspartnerselskab

CVR No 25 57 81 98



Kenn Wolff Hansen

State Authorised Public Account

mne30154

Company Information

The Company

Zoetis Denmark ApS
Gammelgårdsvej 87 C
DK-3520 Farum

Telephone: + 45 70207303

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
Martin Heller

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:

	2019/20	2018/19	2017/18	2016/17	2016 - 11
	TDKK	TDKK	TDKK	TDKK	months
					TDKK
Key figures					
Profit/loss					
Gross profit/loss	64,913	48,864	39,341	24,535	21,808
Profit/loss before financial income and expenses	-36,212	-19,332	-12,370	-7,481	-1,996
Net financials	72	244	-123	-386	-579
Net profit/loss for the year	-36,140	-19,088	-12,492	-7,497	176
Balance sheet					
Balance sheet total	121,907	158,781	138,311	141,923	65,124
Equity	56,954	93,095	27,183	39,675	47,172
Investment in property, plant and equipment	8,547	18,055	27,229	22,360	6,888
Number of employees	82	88	81	60	36
Ratios					
Return on assets	-29.7%	-12.2%	-8.9%	-5.3%	-3.1%
Solvency ratio	46.7%	58.6%	19.7%	28.0%	72.4%
Return on equity	-48.2%	-31.7%	-37.4%	-17.3%	0.4%

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 2019/20 shows a loss of DKK 36,140,210, and at 30 November 2020 the balance sheet of the Company shows equity of DKK 56,954,332.

There have been no effect of the Covid-19 pandemic on the 2020 result and this is also the expectation for 2021. The demand have been unaffected and the effect on the staff situation have also been insignificant.

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.

In 2019/20 Management has prepared an updated impairment test of the development projects in progress and based hereon an impairment write-down in addition to normal amortisation of DKK 25.7 Million has been recognised in income statement for 2019/20.

The net result of DKK -36,140,210 for the year is negatively affected by write-down on development projects as described above. Consequently the result for 2019/20 is below expectations for the year.

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.

Unusual events

Beside the impairment write-down on development projects in progress the annual report for 2019/20 is not affected by any unusual events.

Subsequent events

No significant events have occurred after 30 November 2020.

Income Statement 1 December - 30 November

	<u>Note</u>	<u>2019/20</u> DKK	<u>2018/19</u> DKK
Gross profit/loss		64,912,539	48,864,142
Staff expenses	2	-57,201,104	-59,369,971
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-43,923,696	-8,826,615
Profit/loss before financial income and expenses		-36,212,261	-19,332,444
Financial income		439,912	323,960
Financial expenses	4	-367,861	-79,569
Profit/loss before tax		-36,140,210	-19,088,053
Tax on profit/loss for the year		0	0
Net profit/loss for the year		-36,140,210	-19,088,053

Balance Sheet 30 November

Assets

	Note	2019/20 DKK	2018/19 DKK
Completed development projects		12,481,638	8,313,340
Acquired patents		0	797,438
Development projects in progress		0	25,673,091
Intangible assets	5	12,481,638	34,783,869
Plant and machinery		21,738,873	20,447,870
Other fixtures and fittings, tools and equipment		3,549,584	2,281,600
Leasehold improvements		13,618,191	17,190,224
Property, plant and equipment in progress		15,864,450	27,786,175
Property, plant and equipment	6	54,771,098	67,705,869
Deposits		1,211,283	1,102,058
Fixed asset investments	7	1,211,283	1,102,058
Fixed assets		68,464,019	103,591,796
Inventories		7,387,112	10,238,437
Trade receivables		5,169,775	994,219
Receivables from group enterprises		29,122,639	27,425,787
Other receivables		1,967,080	1,049,531
Receivables		36,259,494	29,469,537
Cash at bank and in hand		9,796,454	15,481,322
Currents assets		53,443,060	55,189,296
Assets		121,907,079	158,781,092

Balance Sheet 30 November

Liabilities and equity

	Note	2019/20 DKK	2018/19 DKK
Share capital	8	66,238,266	66,238,266
Reserve for development costs		12,481,638	12,506,122
Retained earnings		<u>-21,765,572</u>	<u>14,350,154</u>
Equity		<u>56,954,332</u>	<u>93,094,542</u>
Payables to group enterprises		39,822,804	41,054,302
Other payables		<u>0</u>	<u>256,074</u>
Long-term debt	9	<u>39,822,804</u>	<u>41,310,376</u>
Lease obligations		0	153,563
Trade payables		9,521,300	6,583,077
Payables to group enterprises	9	181,204	0
Other payables	9	<u>15,427,439</u>	<u>17,639,534</u>
Short-term debt		<u>25,129,943</u>	<u>24,376,174</u>
Debt		<u>64,952,747</u>	<u>65,686,550</u>
Liabilities and equity		<u>121,907,079</u>	<u>158,781,092</u>
Uncertainty in recognition and measurement	1		
Distribution of profit	10		
Contingent assets, liabilities and other financial obligations	11		
Related parties	12		
Accounting Policies	13		

Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	DKK	DKK	DKK	DKK
Equity at 1 December 2019	66,238,266	12,506,122	14,350,154	93,094,542
Adjustment for the year	0	-24,484	24,484	0
Net profit/loss for the year	0	0	-36,140,210	-36,140,210
Equity at 30 November 2020	66,238,266	12,481,638	-21,765,572	56,954,332

Notes to the Financial Statements

1 Uncertainty in 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 12,482 thousand.

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.

	<u>2019/20</u>	<u>2018/19</u>
	DKK	DKK
2 Staff expenses		
Wages and salaries	50,568,448	51,846,230
Pensions	6,021,919	6,875,708
Other social security expenses	<u>610,737</u>	<u>648,033</u>
	<u>57,201,104</u>	<u>59,369,971</u>
Average number of employees	<u>82</u>	<u>88</u>

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

Notes to the Financial Statements

	<u>2019/20</u>	<u>2018/19</u>
	DKK	DKK
3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation and impairment of intangible assets	37,904,309	3,777,275
Depreciation of property, plant and equipment	<u>6,019,387</u>	<u>5,049,340</u>
	<u>43,923,696</u>	<u>8,826,615</u>
Which is specified as follows:		
Completed development projects	37,106,870	3,382,558
Acquired patents	797,439	394,717
Plant and machinery	3,161,732	2,339,357
Other fixtures and fittings, tools and equipment	1,043,698	1,033,260
Leasehold improvements	<u>1,813,957</u>	<u>1,676,723</u>
	<u>43,923,696</u>	<u>8,826,615</u>
4 Financial expenses		
Other financial expenses	69,828	56,930
Exchange loss	<u>298,033</u>	<u>22,639</u>
	<u>367,861</u>	<u>79,569</u>

Notes to the Financial Statements

5 Intangible assets

	Completed development projects	Acquired pa- tents	Development projects in progress	Total
	DKK	DKK	DKK	DKK
Cost at 1 December 2019	41,399,384	2,609,263	25,673,091	69,681,738
Additions for the year	0	0	15,602,047	15,602,047
Disposals for the year	-654,746	-360,648	0	-1,015,394
Transfers for the year	41,275,138	0	-41,275,138	0
Cost at 30 November 2020	<u>82,019,776</u>	<u>2,248,615</u>	<u>0</u>	<u>84,268,391</u>
Impairment losses and amortisation at 1 December 2019	33,086,014	1,811,824	0	34,897,838
Amortisation and impairment for the year	37,106,870	797,439	0	37,904,309
Reversal of amortisation of disposals for the year	-654,746	-360,648	0	-1,015,394
Impairment losses and amortisation at 30 November 2020	<u>69,538,138</u>	<u>2,248,615</u>	<u>0</u>	<u>71,786,753</u>
Carrying amount at 30 November 2020	<u>12,481,638</u>	<u>0</u>	<u>0</u>	<u>12,481,638</u>

Developed projects relates to analyzers with Lab-on-a-chip based onetime use cartridges

Notes to the Financial Statements

6 Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress	Total
	DKK	DKK	DKK	DKK	DKK
Cost at 1 December 2019	40,757,908	4,705,627	24,936,039	27,786,175	98,185,749
Reclassification	353,768	2,988,605	-2,697,802	-315,120	329,451
Additions for the year	4,236,475	0	314,765	3,995,442	8,546,682
Disposals for the year	0	0	0	-15,602,047	-15,602,047
Cost at 30 November 2020	<u>45,348,151</u>	<u>7,694,232</u>	<u>22,553,002</u>	<u>15,864,450</u>	<u>91,459,835</u>
Impairment losses and depreciation at 1 December 2019	20,310,037	2,424,040	7,745,815	0	30,479,892
Reclassification	137,509	676,910	-624,961	0	189,458
Depreciation for the year	<u>3,161,732</u>	<u>1,043,698</u>	<u>1,813,957</u>	<u>0</u>	<u>6,019,387</u>
Impairment losses and depreciation at 30 November 2020	<u>23,609,278</u>	<u>4,144,648</u>	<u>8,934,811</u>	<u>0</u>	<u>36,688,737</u>
Carrying amount at 30 November 2020	<u>21,738,873</u>	<u>3,549,584</u>	<u>13,618,191</u>	<u>15,864,450</u>	<u>54,771,098</u>
Including assets under finance leases amounting to	<u>640,074</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>640,074</u>

7 Fixed asset investments

	Deposits
	DKK
Cost at 1 December 2019	1,102,058
Additions for the year	<u>109,225</u>
Cost at 30 November 2020	<u>1,211,283</u>
Carrying amount at 30 November 2020	<u>1,211,283</u>

Notes to the Financial Statements

8 Equity

The share capital is broken down as follow:

	<u>Number</u>	<u>Nominal value</u> DKK
A-shares	26,238,266	26,238,266
B-shares	40,000,000	40,000,000
		<u>66,238,266</u>

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

9 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:

	<u>2019/20</u> DKK	<u>2018/19</u> DKK
Payables to group enterprises		
Between 1 and 5 years	39,822,804	41,054,302
Long-term part	39,822,804	41,054,302
Other short-term debt to group enterprises	181,204	0
	<u>40,004,008</u>	<u>41,054,302</u>
Other payables		
Between 1 and 5 years	0	256,074
Long-term part	0	256,074
Other short-term payables	15,427,439	17,639,534
	<u>15,427,439</u>	<u>17,895,608</u>

10 Distribution of profit

Retained earnings	-36,140,210	-19,088,053
	<u>-36,140,210</u>	<u>-19,088,053</u>

Notes to the Financial Statements

	<u>2019/20</u>	<u>2018/19</u>
	DKK	DKK
11 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 18.6 Million.		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	2,389,146	2,694,959
Between 1 and 5 years	<u>7,366,534</u>	<u>9,885,397</u>
	<u>9,755,680</u>	<u>12,580,356</u>

Other contingent liabilities

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

Notes to the Financial Statements

12 Related parties

	<u>Basis</u>
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 10,435,660 (DKK 6,401,145 in FY2018/19)

Development cost recharged to group companies DKK 79,990,071 (DKK 65,046,188 in FY2018/19)

Cost recharged to related parties DKK 8,904,917 (DKK 7,106,972 in FY2018/19)

Receivables from related parties DKK 29,122,639 (DKK 27,427,364 in FY2018/19)

Loan from related parties DKK 39,822,804 (DKK 41,054,302 in FY2018/19)

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Ultimate Parent Company

<u>Name</u>	<u>Place of registered office</u>
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

13 Accounting Policies

The Annual Report of Zoetis Denmark ApS for 2019/20 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Financial Statements for 2019/20 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 the income statement on a straight-line basis over the lease term.

Notes to the Financial Statements

13 Accounting Policies (continued)

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, gross profit/loss is calculated as a summary of revenue, other operating income, cost of sales and other external expenses.

Staff expenses

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

Notes to the Financial Statements

13 Accounting Policies (continued)

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 expenses in the year when they are paid.

Notes to the Financial Statements

13 Accounting Policies (continued)

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.	4-10 years
Leasehold improvements	10 years

The fixed assets' residual values are determined at nil.

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.

Fixed asset investments

Fixed asset investments consist of deposits.

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

13 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.

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.

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.

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

Other liabilities are measured at net realisable value.

Notes to the Financial Statements

13 Accounting Policies (continued)

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	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$