
Taconic Biosciences A/S

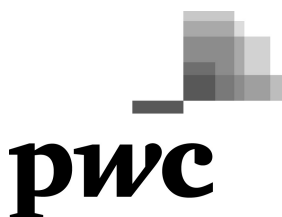
Himmelbjergvej 131, DK-8600 Silkeborg

Annual Report for 1 January - 31 December 2020

CVR No 10 50 45 70

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
30/6 2021

Peter Jerome
Chairman of the General
Meeting



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 January - 31 December	10
Balance Sheet 31 December	11
Statement of Changes in Equity	13
Cash Flow Statement 1 January - 31 December	14
Notes to the Financial Statements	15

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Taconic Biosciences A/S for the financial year 1 January - 31 December 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 31 December 2020 of the Company and of the results of the Company operations and cash flows for 2020.

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.

Ejby, 30 June 2021

Executive Board

Henrik Andreas Stendevad

Board of Directors

Nancy Jo Sandy
Chairman

John Eric von Bargaen

Henrik Andreas Stendevad

Independent Auditor's Report

To the Shareholder of Taconic Biosciences A/S

Report on the Financial Statements

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2020 and of the results of the Company's operations and cash flows for the financial year 1 January - 31 December 2020 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Taconic Biosciences A/S for the financial year 1 January - 31 December 2020, which comprise income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies ("the Financial Statements").

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.

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 required under the Danish Financials Statements Act.

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

Independent Auditor's Report

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 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.

Independent Auditor's Report

- 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.

Reporting obligations under section 7(2) of the Danish Executive Order on Approved Auditors' Reports

Late reporting on VAT returns

The Company has contrary to the Danish VAT Act reported several VAT returns to the Danish Tax Authorities to late, whereby the management may incur liability.

Hellerup, 30 June 2021

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Jan Boje Andreassen
State Authorised Public Accountant
mne2338

Annika Søndergaard Nielsen
State Authorised Public Accountant
mne45835

Company Information

The Company

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Website: www.taconic.dk

CVR No: 10 50 45 70
Financial period: 1 January - 31 December
Incorporated: 1 November 1986
Financial year: 33rd financial year
Municipality of reg. office: Silkeborg

Board of Directors

Nancy Jo Sandy, Chairman
John Eric von Bargaen
Henrik Andreas Stendevad

Executive Board

Henrik Andreas Stendevad

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Financial Highlights

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

	2020 TDKK	2019 TDKK	2018 TDKK	2017 TDKK	2016 TDKK
Key figures					
Profit/loss					
Revenue	178.607	188.798	176.393	173.232	159.594
Gross profit/loss	50.514	58.784	57.289	64.058	53.176
Operating profit/loss	-11.075	-5.602	-5.472	7.200	-6.165
Net financials	88	-196	-665	1.373	-184
Net profit/loss for the year	-10.986	-5.798	-6.137	8.573	-7.394
Balance sheet					
Balance sheet total	137.028	130.502	121.741	117.797	89.441
Equity	8.187	19.173	24.971	31.109	22.536
Cash flows					
Cash flows from:					
- operating activities	5.955	4.335	6.169	16.818	-1.606
- investing activities	-4.211	-18.836	-15.453	-35.446	-10.418
- financing activities	8.295	17.851	5.674	22.957	13.887
Change in cash and cash equivalents for the year	10.039	3.350	-3.610	4.329	1.863
Number of employees	118	120	121	120	125
Ratios					
Gross margin	28,3%	31,1%	32,5%	37,0%	33,3%
Profit margin	-6,2%	-3,0%	-3,1%	4,2%	-3,9%
Return on assets	-8,1%	-4,3%	-4,5%	6,1%	-6,9%
Solvency ratio	6,0%	14,7%	20,5%	26,4%	25,2%
Return on equity	-80,3%	-26,3%	-21,9%	32,0%	-28,2%

Management's Review

Key activities

The principal activities of the company are production and sale of laboratory mice and rats for biomedical research purposes. The animals are sold in Denmark and abroad to pharmaceutical companies and academic institutions. In addition, the company breeds laboratory mice on contract.

The company has three production sites in Denmark, as well as a quality control laboratory.

The company is European distributor of laboratory mice and rats from the parent company, Taconic Biosciences, Inc., USA, and for a Japanese research institution.

Finally, the company offers a number of laboratory services related to laboratory animals, including microbiological diagnostics, globally-harmonized health standards, rederivation services, cryopreservation and more.

Market overview

Over the last couple of years the market for pre-clinical has evolved in several areas. The well-known attrition rate of therapeutic candidates in the drug discovery process has increased the focus on pre-clinical stage testing. This has implied an increase in demand for the company's genetically modified products and contract services for customer owned genetically modified models.

Taconic's Denmark facility will continue to work in close connection to the headquarters in the United States and with all global facilities to ensure Taconic's retains a leadership position within the animal model industry.

67% of the Company's revenues represented exports.

Development in the year

The income statement of the Company for 2020 shows a loss of DKK 10,986,335, and at 31 December 2020 the balance sheet of the Company shows equity of DKK 8,186,877.

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

During 2020 the Company's revenue decreased by 5%. The Company's focus on quality and customer service continues to result in annual revenue increases. During 2020, the Company incurred a larger net loss for the year than planned.

Management's Review

Operating risks

The company is exposed to a certain production risk in form of murine pathogens, which may affect the production. The company has and will continue to implement new breeding technologies, including individually ventilated cages, in order to minimize this risk and also performs extensive health monitoring of animals.

Genetic non-conformance is another risk. The breeding methods are aimed at minimizing this risk, and the animals bred are subject to genetic control. Genetic monitoring has been kept at a high level during 2020 and 2019.

Foreign exchange risks

Our products are traded in DKK and EUR and purchases are made in USD and JPY.

Interest rate risks

Fluctuation in loan interest will have an effect on net income as approx. 35 % of the company's long term loans are based on variable interest. But since the interest rates are low and expected to remain low, the risks are considered minimal.

Strategy

The strategy for the European Market is consistent with Taconic's corporate strategy. Brand elevation continues to be a priority, with supporting efforts consisting of content marketing, new asset creation, bold messaging, targeted prospecting, and new products that leverage market demand.

Targets and expectations for the year ahead

The company's management has created a better correlation between revenue and capacity, which will continue to be a focus in the future. The company is working on adapting production capacity and continuing to lead the industry in creating the best solutions for customers.

The Company expects to improve its financial results during 2021.

Research and development

The Company does not perform research and development but rather relies on the group organization for new products.

Management's Review

External environment

Customers' expectations to quality are continuously rising, and the company expects to continue focusing on quality as a primary part of the strategy. CRISPR continues to be a technology that has changed the landscape of animal model development and drug discovery, Taconic is uniquely positioned among its competitors because it offers both CRISPR and more complex gene modification technologies.

Taconic is also expected to gain from a trend in research towards more specialized, genetically specific, animal models.

Intellectual capital resources

Taconic has built a global reputation for providing customers with the best animal model solutions. A major component of this strategy is the interface between the customer and Taconic. To ensure that the connection with its customers remains strong, Taconic has a strong commitment to both providing strong branding and educational marketing content, while also continuously training the global sales team on its products and services.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 January - 31 December

	Note	2020 DKK	2019 DKK
Revenue		178.606.658	188.797.555
Expenses for raw materials and consumables		-55.640.278	-51.435.198
Other external expenses		-72.452.637	-78.578.144
Gross profit/loss		50.513.743	58.784.213
Staff expenses	3	-51.071.291	-53.975.107
Depreciation, amortisation and impairment of property, plant and equipment	4	-10.517.130	-10.411.588
Profit/loss before financial income and expenses		-11.074.678	-5.602.482
Financial income		919.453	400.740
Financial expenses		-831.110	-596.495
Profit/loss before tax		-10.986.335	-5.798.237
Tax on profit/loss for the year		0	0
Net profit/loss for the year		-10.986.335	-5.798.237

Balance Sheet 31 December

Assets

	Note	2020 DKK	2019 DKK
Land and buildings		57.544.664	43.934.937
Other fixtures and fittings, tools and equipment		28.410.656	24.040.843
Property, plant and equipment in progress		1.346.560	25.901.302
Property, plant and equipment	5	87.301.880	93.877.082
Fixed assets		87.301.880	93.877.082
Inventories	6	3.408.481	2.894.662
Trade receivables		26.039.341	22.748.185
Other receivables		441.289	1.043.728
Prepayments	7	0	140.514
Receivables		26.480.630	23.932.427
Cash at bank and in hand		19.836.696	9.797.487
Currents assets		49.725.807	36.624.576
Assets		137.027.687	130.501.658

Balance Sheet 31 December

Liabilities and equity

	Note	2020 DKK	2019 DKK
Share capital		2.100.000	2.100.000
Retained earnings		6.086.877	17.073.212
Equity		8.186.877	19.173.212
Mortgage loans		875.443	1.606.883
Long-term debt	9	875.443	1.606.883
Mortgage loans	9	731.807	730.961
Trade payables		7.357.319	3.090.934
Payables to group enterprises		102.788.788	93.793.679
Other payables		16.048.406	11.346.474
Deferred income	10	1.039.047	759.515
Short-term debt		127.965.367	109.721.563
Debt		128.840.810	111.328.446
Liabilities and equity		137.027.687	130.501.658
Capital resources	1		
Subsequent events	2		
Distribution of profit	8		
Contingent assets, liabilities and other financial obligations	13		
Related parties	14		
Accounting Policies	15		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	DKK	DKK	DKK
Equity at 1 January	2.100.000	17.073.212	19.173.212
Net profit/loss for the year	0	-10.986.335	-10.986.335
Equity at 31 December	2.100.000	6.086.877	8.186.877

Cash Flow Statement 1 January - 31 December

	Note	2020 DKK	2019 DKK
Net profit/loss for the year		-10.986.335	-5.798.237
Adjustments	11	10.211.068	10.215.832
Change in working capital	12	<u>6.185.828</u>	<u>-278.369</u>
Cash flows from operating activities before financial income and expenses		5.410.561	4.139.226
Financial income		-919.453	-400.740
Financial expenses		<u>1.464.341</u>	<u>596.495</u>
Cash flows from operating activities		5.955.449	4.334.981
Purchase of property, plant and equipment		<u>-4.210.755</u>	<u>-18.836.167</u>
Cash flows from investing activities		-4.210.755	-18.836.167
Repayment of mortgage loans		-730.594	-2.378.276
Raising of loans from group enterprises		<u>9.025.109</u>	<u>20.229.340</u>
Cash flows from financing activities		8.294.515	17.851.064
Change in cash and cash equivalents		10.039.209	3.349.878
Cash and cash equivalents at 1 January		<u>9.797.487</u>	<u>6.447.609</u>
Cash and cash equivalents at 31 December		19.836.696	9.797.487
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		<u>19.836.696</u>	<u>9.797.487</u>
Cash and cash equivalents at 31 December		19.836.696	9.797.487

Notes to the Financial Statements

1 Capital resources

The Company has received a letter of support from Taconic Biosciences Inc. stating that they will provide necessary support to ensure that the Company will be able to meet its obligations. Further, loan extended and additional future loans extends to the Company from Taconic Biosciences Inc. will not be called unless the liquidity position of the Company is adequate to justify such repayment. The support letter is valid until 31 May 2022.

2 Subsequent events

No events materially affecting the Company's financial position at 31 December 31 2020 have occurred after the balance sheet date.

3 Staff expenses

	<u>2020</u> DKK	<u>2019</u> DKK
Wages and salaries	46.546.760	49.370.133
Pensions	3.793.548	3.748.513
Other social security expenses	<u>730.983</u>	<u>856.461</u>
	<u>51.071.291</u>	<u>53.975.107</u>
Average number of employees	<u>118</u>	<u>120</u>

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

4 Depreciation, amortisation and impairment of property, plant and equipment

Depreciation of property, plant and equipment	10.517.130	9.533.233
Gain and loss on disposal	<u>0</u>	<u>878.355</u>
	<u>10.517.130</u>	<u>10.411.588</u>

Notes to the Financial Statements

5 Property, plant and equipment

	Land and buildings	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress
	DKK	DKK	DKK
Cost at 1 January	75.808.554	50.023.487	25.901.302
Additions for the year	0	0	4.210.755
Transfers for the year	16.856.286	11.640.383	-28.765.497
Cost at 31 December	<u>92.664.840</u>	<u>61.663.870</u>	<u>1.346.560</u>
Impairment losses and depreciation at 1 January	31.873.617	25.982.644	0
Depreciation for the year	3.246.559	7.270.570	0
Impairment losses and depreciation at 31 December	<u>35.120.176</u>	<u>33.253.214</u>	<u>0</u>
Carrying amount at 31 December	<u>57.544.664</u>	<u>28.410.656</u>	<u>1.346.560</u>
Depreciated over	<u>25 years</u>	<u>3-7 years</u>	

6 Inventories

	2020	2019
	DKK	DKK
Raw materials and consumables	1.964.892	1.606.735
Animals	1.443.589	1.287.927
	<u>3.408.481</u>	<u>2.894.662</u>

7 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

8 Distribution of profit

Retained earnings	-10.986.335	-5.798.237
	<u>-10.986.335</u>	<u>-5.798.237</u>

Notes to the Financial Statements

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>2020</u>	<u>2019</u>
	DKK	DKK
Mortgage loans		
Between 1 and 5 years	875.443	1.606.883
Long-term part	<u>875.443</u>	<u>1.606.883</u>
Within 1 year	<u>731.807</u>	<u>730.961</u>
	<u>1.607.250</u>	<u>2.337.844</u>

10 Deferred income

Deferred income consists of payments received in respect of income in subsequent years.

11 Cash flow statement - adjustments

Financial income	919.453	400.740
Financial expenses	-1.464.341	-596.495
Depreciation, amortisation and impairment losses, including losses and gains on sales	10.517.129	10.411.587
Other adjustments	<u>238.827</u>	<u>0</u>
	<u>10.211.068</u>	<u>10.215.832</u>

12 Cash flow statement - change in working capital

Change in inventories	-513.818	969.670
Change in receivables	-2.548.203	2.074.266
Change in trade payables, etc	<u>9.247.849</u>	<u>-3.322.305</u>
	<u>6.185.828</u>	<u>-278.369</u>

Notes to the Financial Statements

	2020 DKK	2019 DKK
13 Contingent assets, liabilities and other financial obligations		
Charges and security		
The following assets have been placed as security with mortgage credit institutes:		
Land and buildings, DKK 57,545k, may be comprised by the mortgage on the Company's properties under the rules on appurtenance lien showing a total security of DKK 9,386k.		
The following assets have been placed as security with bankers:		
Mortgage deeds registered to the mortgagor totalling DKK 16,400k, providing security in inventory, trade receivables and other fixtures and fittings, tools and equipment at a total carrying amount of:		
	57.858	49.684
Land and buildings, DKK 57,545k, may be comprised by the mortgage on the Company's properties under the rules on appurtenance lien showing a total security of DKK 4,960k.		
Lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	443.905	434.740
Between 1 and 5 years	561.584	387.449
	1.005.489	822.189

Other contingent liabilities

The Company is undergoing a transfer pricing audit from the Danish Tax Authorities. The transfer pricing documentation have now been prepared and sent to the tax authorities, but their decision has not yet been received.

Notes to the Financial Statements

14 Related parties

	<u>Basis</u>
Controlling interest	
Taconic Biosciences Inc., USA	Ultimate parent

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act.

Notes to the Financial Statements

15 Accounting Policies

The Annual Report of Taconic Biosciences A/S for 2020 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 2020 are presented in DKK.

Recognition and measurement

The Financial Statements have been prepared under the historical cost method.

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.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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.

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 indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

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 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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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

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:

Production buildings	25 years		
Other fixtures and fittings, tools and equipment	3-7	years	

Land is not depreciated.

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of 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, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Notes to the Financial Statements

15 Accounting Policies (continued)

Inventories

Inventories are measured at the lower of cost based on weighted average prices 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 animals comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

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 rent, insurance premiums, subscriptions and interest.

Deferred tax assets and liabilities

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

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

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

Notes to the Financial Statements

15 Accounting Policies (continued)

Current tax receivables and liabilities

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

Financial debts

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

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

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Cash Flow Statement

The cash flow statement shows the Company's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of property, plant and equipment.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt.

Notes to the Financial Statements

15 Accounting Policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand".

The cash flow statement cannot be immediately derived from the published financial records.

Financial Highlights

Explanation of financial ratios

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