

Syntese A/S
Industriholmen 13
2650 Hvidovre
Central Business Registration No
13456402

Annual report 2016

The Annual General Meeting adopted the annual report on 14.03.2017

Chairman of the General Meeting

Name: Lars Peter Brunse

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Entity details

Entity

Syntese A/S
Industriholmen 13
2650 Hvidovre

Central Business Registration No: 13456402

Founded: 31.08.1989

Registered in: Hvidovre

Financial year: 01.01.2016 - 31.12.2016

Phone: +4536340030

Website: www.syntese.dk

Board of Directors

Lars Peter Brunse, Chairman
Claus Johnsen Jepsen
Kim Fonager Jensen
Marianne Kock
Mette Mari Rohrberg

Executive Board

Finn Jessen, Chief Executive Officer

Bank

Danske Bank, Corporate Banking Denmark
Holmens Kanal 2
1060 Copenhagen K

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
PO Box 1600
0900 Copenhagen K

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Syntese A/S for the financial year 01.01.2016 - 31.12.2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Hvidovre, 14.03.2017

Executive Board

Finn Jessen
Chief Executive Officer

Board of Directors

Lars Peter Brunse
Chairman

Claus Johnsen Jepsen

Kim Fonager Jensen

Marianne Kock

Mette Mari Rohrberg

Independent auditor's report

To the shareholders of Syntese A/S

Opinion

We have audited the financial statements of Syntese A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement 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 Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of 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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity 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:

Independent auditor's report

- 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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 the management commentary

Management is responsible for the management commentary.

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

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Independent auditor's report

Based on the work we have performed, we conclude that the management commentary 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 of the management commentary.

Copenhagen, 14.03.2017

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No: 33963556

Flemming Larsen

State Authorised Public Accountant

Management commentary

	2016	2015	2014	2013	2012
	DKK'000	DKK'000	DKK'000	DKK'000	DKK'000
Financial highlights					
Key figures					
Revenue	239,748	218,546	239,684	187,259	190,032
Gross profit/loss	73,773	69,215	66,821	42,676	47,739
Operating profit/loss	56,874	55,534	55,598	32,007	37,699
Net financials	(981)	(1,138)	(1,712)	(710)	(1,989)
Profit/loss for the year	43,543	41,881	40,887	23,671	26,684
Total assets	123,090	126,459	132,268	123,473	129,404
Investments in property, plant and equipment	12,196	16,875	7,697	7,979	9,484
Equity	70,764	54,221	66,340	63,453	64,782
Employees in average	90	84	83	80	81
Ratios					
Gross margin (%)	30.8	31.7	27.9	22.8	25.1
Return on equity (%)	69.7	69.5	63.0	36.9	40.2
Equity ratio (%)	57.5	42.9	50.2	51.4	50.1
Revenue per employee	2,663.9	2,601.7	2,887.8	2,340.7	2,346.1
Profit margin (%)	23.7	25.4	23.2	17.1	19.8
Return on assets (%)	46.2	43.9	42.0	25.9	29.1

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Ratios
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.
Revenue per employee	$\frac{\text{Revenue}}{\text{Revenue per employee}}$	The entity's productivity
Profit margin (%)	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$	Earnings capacity.
Return on assets (%)	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$	The entity's ability to generate profits in relation to total assets.

Management commentary

Primary activities

The Company's primary activity is to produce the pharmaceutical substance Mesalazine for human use.

In early 2007, the Company was approved by the US Food and Drug Administration (FDA) and since then the Company has been selling its products to the US market. Most company products are sold in the European market. The level of activity remained high for 2016 and according to expectations. The Company employed an average of 90 staff members in 2016.

Development in activities and finances

For 2016, operating profit before financials and tax is DKK 56,874k (2015: DKK 55,534k). The operating profit for 2016 is influenced by increasing sales and production volumes and continued implementation of a savings programme. Operating profit has increased by DKK 1,340k, or 2.4%, from 2015 to 2016.

Profit for the year is DKK 43,543k (2015: 41,881k) and the Company's balance sheet at 31 December 2016 shows equity of DKK 70,764k, equaling an equity ratio of 57.5%.

Uncertainty relating to recognition and measurement

Nothing to report.

Unusual circumstances affecting recognition and measurement

Nothing to report.

Outlook

The Company's activity in 2017 is expected to be on the same level as in 2016. The programme of process optimisation will be continued. The Entity's success with these programmes has resulted in considerable efficiency measures and there is room for additional efficiency measures.

Particular risks

The Entity produces one product, Mesalazine. The product has a key position in the treatment of Colitis Ulcerosa and Chron's disease. This key position is not expected to change in the foreseeable future.

Intellectual capital resources

The Entity's development department is staffed with highly educated candidates from various universities. The Entity is working intensely with process development for the purpose of minimising environmental impact and optimising the return from all steps of the process.

Environmental performance

Syntese A/S is a so-called listed undertaking, meaning an undertaking producing pharmaceuticals through a chemical or biological process. Syntese A/S holds an environmental licence for both production and inventories. In addition, the pilot activities are covered by a separate environmental licence and a permit has been granted by the Capital Region of Denmark for the underground storage tanks.

The main environmental impact of Syntese A/S is the Company's consumption of resources and raw materials, accrual of waste and process wastewater as well as emission from the two combustion plants. Consumption of resources includes water, electricity and heating for the entire Company and the use of

Management commentary

raw materials for production and development purposes. Process wastewater and waste are key emissions, the environmental impact of which takes the form of accrual of waste and process wastewater, which is transported or discharged for external treatment.

Syntese A/S was certified under DS/EN ISO 14001:2004 (environmental management) in 2011, and in 2013, the Company was certified under OHSAS 18001 (working environment).

Research and development activities

During the year, the Company continued to develop its processes and technologies to optimise profits and reduce production costs. The programme implemented has had a positive effect in 2016. The programme will continue in the years ahead. Costs incurred for the process and development activities have been borne by operations.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Income statement for 2016

	<u>Notes</u>	<u>2016 DKK'000</u>	<u>2015 DKK'000</u>
Revenue		239,748	218,546
Production costs	1, 2	<u>(165,975)</u>	<u>(149,331)</u>
Gross profit/loss		73,773	69,215
Administrative costs	1, 2	<u>(16,899)</u>	<u>(13,681)</u>
Operating profit/loss		56,874	55,534
Other financial income	3	44	44
Other financial expenses	4	<u>(1,025)</u>	<u>(1,182)</u>
Profit/loss before tax		55,893	54,396
Tax on profit/loss for the year	5	<u>(12,350)</u>	<u>(12,515)</u>
Profit/loss for the year	6	<u>43,543</u>	<u>41,881</u>

Balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK'000</u>	<u>2015 DKK'000</u>
Acquired licences		1,339	1,452
Intangible assets	7	<u>1,339</u>	<u>1,452</u>
Land and buildings		35,893	29,897
Plant and machinery		30,110	29,209
Other fixtures and fittings, tools and equipment		731	459
Property, plant and equipment in progress		3,073	8,482
Property, plant and equipment	8	<u>69,807</u>	<u>68,047</u>
Fixed assets		<u>71,146</u>	<u>69,499</u>
Raw materials and consumables		5,669	6,886
Work in progress		4,125	7,043
Manufactured goods and goods for resale		22,874	23,829
Inventories		<u>32,668</u>	<u>37,758</u>
Trade receivables		1,728	4,170
Receivables from group enterprises		10,104	8,839
Other receivables		2,944	3,143
Prepayments	9	1,464	1,160
Receivables		<u>16,240</u>	<u>17,312</u>
Cash		<u>3,036</u>	<u>1,890</u>
Current assets		<u>51,944</u>	<u>56,960</u>
Assets		<u>123,090</u>	<u>126,459</u>

Balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK'000</u>	<u>2015 DKK'000</u>
Contributed capital	10	2,340	2,340
Retained earnings		68,424	24,881
Proposed dividend		<u>0</u>	<u>27,000</u>
Equity		<u>70,764</u>	<u>54,221</u>
Deferred tax	11	<u>5,998</u>	<u>5,716</u>
Provisions		<u>5,998</u>	<u>5,716</u>
Mortgage debts		<u>12,464</u>	<u>14,541</u>
Non-current liabilities other than provisions	12	<u>12,464</u>	<u>14,541</u>
Current portion of long-term liabilities other than provisions	12	2,077	2,057
Trade payables		20,930	11,277
Payables to group enterprises		0	15,704
Income tax payable	13	68	11,452
Other payables		<u>10,789</u>	<u>11,491</u>
Current liabilities other than provisions		<u>33,864</u>	<u>51,981</u>
Liabilities other than provisions		<u>46,328</u>	<u>66,522</u>
Equity and liabilities		<u>123,090</u>	<u>126,459</u>
Unrecognised rental and lease commitments	15		
Contingent liabilities	16		
Related parties with controlling interest	17		
Group relations	18		

Statement of changes in equity for 2016

	Contributed capital DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	2,340	24,881	27,000	54,221
Ordinary dividend paid	0	0	(27,000)	(27,000)
Profit/loss for the year	0	43,543	0	43,543
Equity end of year	2,340	68,424	0	70,764

Cash flow statement 2016

	<u>Notes</u>	<u>2016</u> <u>DKK'000</u>	<u>2015</u> <u>DKK'000</u>
Operating profit/loss		56,878	55,534
Amortisation, depreciation and impairment losses		10,936	11,485
Working capital changes	14	<u>(595)</u>	<u>6,493</u>
Cash flow from ordinary operating activities		67,219	73,512
Financial income received		44	44
Financial income paid		(1,025)	(1,182)
Income taxes refunded/(paid)		<u>(23,452)</u>	<u>(15,054)</u>
Cash flows from operating activities		42,786	57,320
Acquisition etc of intangible assets		(535)	(491)
Acquisition etc of property, plant and equipment		(12,196)	(16,875)
Sale of property, plant and equipment		<u>148</u>	<u>0</u>
Cash flows from investing activities		(12,583)	(17,366)
Instalments on loans etc		(2,057)	(2,025)
Dividend paid		<u>(27,000)</u>	<u>(54,000)</u>
Cash flows from financing activities		(29,057)	(56,025)
Increase/decrease in cash and cash equivalents		1,146	(16,071)
Cash and cash equivalents beginning of year		<u>1,890</u>	<u>17,961</u>
Cash and cash equivalents end of year		3,036	1,890

Notes

	2016	2015
	DKK'000	DKK'000
1. Staff costs		
Wages and salaries	49,796	46,321
Pension costs	5,795	4,914
Other social security costs	653	629
	56,244	51,864
Average number of employees	90	84

Pursuant to section 98b(3) of the Danish Financial Statement Act, the Company has committed to disclose Management's remuneration.

	2016	2015
	DKK'000	DKK'000
Wages and salaries, pensions and other social security expenses are recognised in the following items:		
Production costs	42.929	41.254
Administrative costs	13.315	10.610
	56.244	51.864

	2016	2015
	DKK'000	DKK'000
2. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	648	668
Depreciation on property, plant and equipment	10,288	10,619
Profit/loss from sale of intangible assets and property, plant and equipment	140	199
	11,076	11,486

	2016	2015
	DKK'000	DKK'000
3. Other financial income		
Exchange rate adjustments	44	38
Other financial income	0	6
	44	44

Notes

	2016	2015
	DKK'000	DKK'000
4. Other financial expenses		
Financial expenses from group enterprises	58	42
Exchange rate adjustments	68	88
Other financial expenses	899	1,052
	1,025	1,182
	2016	2015
	DKK'000	DKK'000
5. Tax on profit/loss for the year		
Tax on current year taxable income	12,068	11,457
Change in deferred tax for the year	282	1,058
	12,350	12,515
	2016	2015
	DKK'000	DKK'000
6. Proposed distribution of profit/loss		
Ordinary dividend for the financial year	0	27,000
Retained earnings	43,543	14,881
	43,543	41,881
		Acquired licences DKK'000
7. Intangible assets		
Cost beginning of year		8,402
Additions		535
Cost end of year		8,937
Amortisation and impairment losses beginning of year		(6,950)
Amortisation for the year		(648)
Amortisation and impairment losses end of year		(7,598)
Carrying amount end of year		1,339

Notes

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Property, plant and equipment in progress DKK'000
8. Property, plant and equipment				
Cost beginning of year	88,476	142,757	2,057	8,482
Transfers	6,879	1,603	0	0
Additions	2,275	6,340	508	3,073
Disposals	(851)	(8,354)	(71)	(8,482)
Cost end of year	96,779	142,346	2,494	3,073
Depreciation and impairment losses beginning of the year	(58,579)	(113,548)	(1,598)	0
Depreciation for the year	(3,071)	(6,981)	(236)	0
Reversal regarding disposals	764	8,293	71	0
Depreciation and impairment losses end of the year	(60,886)	(112,236)	(1,763)	0
Carrying amount end of year	35,893	30,110	731	3,073

9. Prepayments

Prepayments include prepaid expenses.

	Number	Nominal value DKK'000
10. Contributed capital		
Ordinary shares	2,340	2,340
	2,340	2,340

Notes

	2016	2015
	DKK'000	DKK'000
11. Deferred tax		
Property, plant and equipment	2,025	1,759
Inventories	3,855	3,905
Receivables	191	125
Liabilities other than provisions	(73)	(73)
	5,998	5,716

Changes during the year

Beginning of year	5,716
Recognised in the income statement	282
End of year	5,998

	Instalments within 12 months 2016 DKK'000	Instalments within 12 months 2015 DKK'000	Instalments beyond 12 months 2016 DKK'000	Outstanding after 5 years DKK'000
12. Liabilities other than provisions				
Mortgage debts	2,077	2,057	12,464	4,155
	2,077	2,057	12,464	4,155

13. Income tax payable

Income tax payable consists of joint taxation contribution.

	2016	2015
	DKK'000	DKK'000
14. Change in working capital		
Increase/decrease in inventories	5,090	(7,816)
Increase/decrease in receivables	1,072	1,772
Increase/decrease in trade payables etc	(6,757)	(4,830)
Other changes	0	17,367
	(595)	6,493

Notes

	2016	2015
	DKK'000	DKK'000
15. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	697	1,129

16. Contingent liabilities

The Company participates in a Danish joint taxation arrangement in which Ferring Pharmaceuticals A/S serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Company is therefore liable from the financial year 2013 for income taxes etc. for the jointly taxed companies and from 1 July 2012 for obligations, if any, relating to the withholding of tax on interest, royalties and dividend for the jointly taxed companies. The total known net liability of the jointly taxed companies under the joint taxation arrangement is evident from the administration company's financial statements.

The Company has contractual obligations regarding fixed assets of DKK 5m.

17. Related parties with controlling interest

The companies below, performing a management function, have a controlling interest:

Parent Foundation

Dr. Frederik Paulsen Foundation
 Chemin De La Vergognausaz 50
 1162 Saint-Prex, Vaus, Switzerland

Intermediate parent

Ferring Holding S.A
 Chemin De La Vergognausaz 50
 1162 Saint-Prex, Vaus, Switzerland

Immediate Parent

Ferring B.V
 Polasrisavenue 144
 2132 JX Hoofddorp
 The Netherlands

Notes

18. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Dr. Frederik Paulsen Foundation, Chemin De La Vergognausaz 50, 1162 Saint-Prex, Vaus, Switzerland. As a result of the legislation in Switzerland, the consolidated financial statements are not published.

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Ferring B.V., Polarisavenue 144, 2132 JX Hoofddorp, The Netherlands. The Group Annual Report of Ferring B.V. may be obtained at the following address:

Ferring B.V.
Polarisavenue 144
2132 JX Hoofddorp
The Netherlands

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

The accounting policies applied to these financial statements are consistent with those applied last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date, are recognised in the income statement as financial income or financial expenses.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Accounting policies

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Production costs

Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary write-down of inventories.

Production costs related to work in progress is recognised when incurred.

Under production costs are also recognised insurance costs, costs related to development projects that do not meet the criteria for recognition in the balance sheet as well as amortisation of recognised development projects. In addition, provision for loss on contract work in progress is recognised.

Administrative costs

Administrative costs comprise expenses incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Other financial income

Other financial income comprises interest, realised and unrealised exchange adjustments as well as extra payments and repayments under the Tax Prepayment Scheme.

Other financial expenses

Other financial expenses comprises interest expenses, realised and unrealised exchange adjustments as well as tax surcharge under the Tax Prepayment Scheme.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with all Danish group enterprises. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Accounting policies

Balance sheet

Intellectual property rights etc

Intellectual property rights etc consist of software and licences. Intellectual property rights acquired are measured at cost less accumulated amortisation. Software is amortised on a straight line basis over its useful life not exceeding 4 years and licenses are amortised over the term of the agreement.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For self-constructed assets, cost comprises direct and indirect costs of materials, components, sub-suppliers and labour costs.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Buildings	20-25 years
Plant and machinery	5-15 years
Other fixtures and fittings, tools and equipment	3-5 years

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Inventories

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

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Accounting policies

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash comprises cash in hand and bank deposits.

Dividend

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Mortgage debt

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Income tax receivable or payable

Current tax payable or receivable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Accounting policies

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, repayments of interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash with an insignificant price risk less short-term bank loans.