Syntese A/S

Industriholmen 13
2650 Hvidovre
CVR No. 13456402

Annual report 2019

The Annual General Meeting adopted the annual report on 29.06.2020

Lars Peter Brunse
Chairman of the General Meeting

Contents

Entity details

Entity

Syntese A/S

Industriholmen 13

2650 Hvidovre

CVR No.: 13456402

Date of foundation: 31.08.1989

Registered office: Hvidovre

Financial year: 01.01.2019 - 31.12.2019

Phone number: +45 36 34 00 30

URL: www.syntese.dk

Board of Directors

Lars Peter Brunse , Chairman

Claus Johnsen Jepsen

Kim Fonager Jensen

Marianne Kock

Lizette Bruun

Executive Board

Carsten Hjorth Jensen, Chief Executive Officer

Bank

Danske Bank, Corporate Banking Denmark
Holmens Kanal 2
1092 Copenhagen K

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
P. O. Box 1600
0900 Copenhagen C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of Syntese A/S for the financial year 01.01.2019 - 31.12.2019.

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 31.12.2019 and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019.

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, 29.06.2020

Executive Board

Carsten Hjorth Jensen
Chief Executive Officer

Board of Directors

Lars Peter Brunse
Chairman

Claus Johnsen Jepsen

Kim Fonager Jensen

Marianne Kock

Lizette Bruun

Independent auditor's report

To the shareholder of Syntese A/S

Opinion

We have audited the financial statements of Syntese A/S for the financial year 01.01.2019 - 31.12.2019, 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 31.12.2019 and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019 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:

- 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.

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, 29.06.2020

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Flemming Larsen
State Authorised Public Accountant
Identification No (MNE) mne27790

Management commentary

Financial highlights

	2019 DKK'000	2018 DKK'000	2017 DKK'000	2016 DKK'000	2015 DKK'000
Key figures					
Revenue	232,919	210,488	224,258	239,748	218,546
Gross profit/loss	55,808	59,969	66,494	73,773	69,215
Operating profit/loss	38,332	41,727	50,139	56,874	55,534
Net financials	(243)	(376)	(364)	(981)	(1,138)
Profit/loss for the year	29,708	32,342	38,837	43,543	41,881
Total assets	145,282	156,743	165,235	123,090	126,459
Investments in property, plant and equipment	17,048	13,472	16,222	12,196	16,875
Equity	92,651	101,943	109,601	70,764	54,221
Average number of employees	94	93	93	90	84
Ratios					
Gross margin (%)	23.96	28.49	29.65	30.77	31.67
EBIT margin (%)	16.46	19.82	22.36	23.72	25.41
Net margin (%)	12.75	15.37	17.32	18.16	19.16
Return on equity (%)	30.53	30.58	43.06	69.68	69.48
Equity ratio (%)	63.77	65.04	66.33	57.49	42.88
Revenue per employee	2,478	2,263	2,411	2,664	2,601
Return on assets	26.38	26.62	30.34	46.21	43.91

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the CFA Society Denmark.

Gross margin (%):
Gross profit/loss * 100
Revenue

EBIT margin (%):
Operating profit/loss * 100
Revenue

Net margin (%):
Profit/loss for the year * 100
Revenue

Return on equity (%):
Profit/loss for the year * 100
Average equity

Equity ratio (%):
Equity * 100
Total assets

Revenue per employee:
Revenue
Average number of employees

Return on assets (%):
Profit before financials * 100
Total assets

Primary activities
The Company's primary activity is to produce the Active Pharmaceutical Ingredient Mesalazine for human use.

In early 2007, the US Food and Drug Administration (FDA) approved the Company, and since then, the Company has been selling its products to the US market. Most company products are sold on the European market. The level of activity remained high in 2019. The Company employed an average staff of 94 in 2019.

Development in activities and finances
For 2019, the operating profit before net financials and tax is DKK 38,332 thousand (2018: DKK 41,727 thousand). Higher sales, lower production volumes and higher raw material prices influenced the operating profit in 2019. The net profit decreased by DKK 2,634 thousand, or 8.9%, from 2018 to 2019.

The profit after interest and tax is DKK 29,708 thousand (2018: 32,342 thousand) and the Company's balance sheet shows equity of DKK 92,651 thousand at 31.12.2019, equalling an equity ratio of 63%.

Uncertainty relating to recognition and measurement
Nothing to report.

Unusual circumstances affecting recognition and measurement
Nothing to report.

Outlook
The Company's level of activity is also expected to be high in 2020. The programme of process optimisation will continue. The Company's success with this programme has resulted in considerable efficiency measures, and there is still room for additional efficiency measures.

Particular risks
The Company produces a 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 soon.

Intellectual capital resources
The Company's development department is staffed with highly educated candidates from various universities. The Company is working intensely with process development to minimise the environmental impact and optimise 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. Also, a separate environmental licence covers the pilot activities, and the Capital Region of Denmark has granted permission to the underground storage tanks.

The main environmental impact of Syntese A/S is its consumption of resources and raw materials, the accrual of waste and process wastewater, and the emission from the two combustion plants. Consumption of resources includes water, electricity and heating for the entire Company and the use of 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(environmental management) first time in 2011 and re-certified in 2014 and 2017 (including energy management in 2017). Syntese A/S has been certified under OHSAS 18001 (working environment) since 2013 and was re-certified in 2016. This certification was replaced by DS/EN ISO 45001 (management systems of occupational health and safety) in 2019.

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 2019. The programme will continue in the years ahead. Operations have born costs incurred for the process and development activities.

Events after the balance sheet date

The COVID-19 outbreak has escalated in the beginning of 2020. On 11 March 2020 WHO has declared the outbreak for a worldwide pandemic. The outbreak has resulted in a number of precautions that affect the organization and operation of day-to-day operations, and the Group's suppliers and customers may be affected. Its economic impact cannot be determined at this time.

It is anticipated that the company will merge with its sister-company, Stamholmen ApS, during 2020, with Syntese A/S as the continuing company.

In addition to the above no significant events of significance to the annual report have occurred after the balance sheet date.

Income statement for 2019

	Notes	2019 DKK'000	2018 DKK '000
Revenue		232,919	210,488
Production costs		(177,111)	(150,519)
Gross profit/loss		**55,808**	**59,969**
Administrative expenses		(17,476)	(18,242)
Operating profit/loss		**38,332**	**41,727**
Other financial income		41	25
Other financial expenses		(284)	(401)
Profit/loss before tax		**38,089**	**41,351**
Tax on profit/loss for the year	3	(8,381)	(9,009)
Profit/loss for the year	4	**29,708**	**32,342**

Balance sheet at 31.12.2019

Assets

	Notes	2019 DKK'000	2018 DKK'000
Acquired licences		2,098	2,408
Intangible assets	5	**2,098**	**2,408**
Land and buildings		45,285	33,689
Plant and machinery		35,570	25,887
Other fixtures and fittings, tools and equipment		3,117	2,422
Property, plant and equipment in progress		0	16,463
Property, plant and equipment	6	**83,972**	**78,461**
Fixed assets		**86,070**	**80,869**
Raw materials and consumables		4,498	3,283
Work in progress		5,163	7,173
Manufactured goods and goods for resale		27,854	38,544
Inventories		**37,515**	**49,000**
Trade receivables		2,465	1,996
Receivables from group enterprises		16,491	5,306
Other receivables		2,097	2,217
Prepayments	7	644	754
Receivables		**21,697**	**10,273**
Cash		**0**	**16,601**
Current assets		**59,212**	**75,874**
Assets		**145,282**	**156,743**

Equity and liabilities

	Notes	2019 DKK'000	2018 DKK'000
Contributed capital	8	2,340	2,340
Retained earnings		84,511	60,603
Proposed dividend		5,800	39,000
Equity		**92,651**	**101,943**
Deferred tax	9	7,913	9,770
Provisions		**7,913**	**9,770**
Mortgage debt		6,213	8,294
Finance lease liabilities		509	0
Other payables		1,955	0
Non-current liabilities other than provisions	10	**8,677**	**8,294**
Current portion of non-current liabilities other than provisions	10	2,366	2,081
Trade payables		13,063	17,211
Payables to group enterprises		894	151
Income tax payable	11	10,239	6,024
Other payables		9,479	11,269
Current liabilities other than provisions		**36,041**	**36,736**
Liabilities other than provisions		**44,718**	**45,030**
Equity and liabilities		**145,282**	**156,743**
Staff costs	1		
Amortisation, depreciation and impairment losses	2		
Unrecognised rental and lease commitments	13		
Contingent liabilities	14		
Related parties with controlling interest	15		
Group relations	16		

Statement of changes in equity for 2019

	Contributed capital DKK'000	Retained earnings DKK'000	Proposed dividend DKK'000	Total DKK'000
Equity beginning of year	2,340	60,603	39,000	101,943
Ordinary dividend paid	0	0	(39,000)	(39,000)
Profit/loss for the year	0	23,908	5,800	29,708
Equity end of year	**2,340**	**84,511**	**5,800**	**92,651**

Cash flow statement for 2019

	Notes	2019 DKK'000	2018 DKK'000
Operating profit/loss		38,332	41,727
Amortisation, depreciation and impairment losses		12,413	10,454
Working capital changes	12	(3,183)	22,473
Cash flow from ordinary operating activities		**47,562**	**74,654**
Financial income received		41	25
Financial expenses paid		(284)	(401)
Income taxes refunded/(paid)		(6,021)	(10,151)
Cash flows from operating activities		**41,298**	**64,127**
Acquisition etc of intangible assets		(611)	(759)
Acquisition etc of property, plant and equipment		(17,048)	(13,472)
Sale of property, plant and equipment		46	977
Cash flows from investing activities		**(17,613)**	**(13,254)**
Loans raised		1,005	0
Repayments of loans etc		(2,291)	(2,089)
Dividend paid		(39,000)	(40,000)
Cash flows from financing activities		**(40,286)**	**(42,089)**
Increase/decrease in cash and cash equivalents		**(16,601)**	**8,784**
Cash and cash equivalents beginning of year		16,601	7,817
Cash and cash equivalents end of year		**0**	**16,601**
Cash and cash equivalents at year-end are composed of:			
Cash		0	16,601
Cash and cash equivalents end of year		**0**	**16,601**

Notes

1 Staff costs

	2019 DKK'000	2018 DKK'000
Wages and salaries	53,616	52,602
Pension costs	6,322	6,271
Other social security costs	592	721
	60,530	**59,594**

Average number of full-time employees	**94**	**93**

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

	2019 DKK'000	2018 DKK'000
Wages and salaries, pension costs and other social security costs are recognised in the following items:		
Production costs	47,331	45,124
Administrative costs	13,199	14,470
	60,530	**59,594**

2 Depreciation, amortisation and impairment losses

	2019 DKK'000	2018 DKK'000
Amortisation of intangible assets	921	742
Depreciation of property, plant and equipment	11,492	9,712
Profit/loss from sale of intangible assets and property, plant and equipment	(3)	979
	12,410	**11,433**

3 Tax on profit/loss for the year

	2019 DKK'000	2018 DKK'000
Current tax	10,239	6,024
Change in deferred tax	(1,858)	2,985
	8,381	**9,009**

4 Proposed distribution of profit and loss

	2019 DKK'000	2018 DKK'000
Ordinary dividend for the financial year	5,800	39,000
Retained earnings	23,908	(6,658)
	29,708	**32,342**

5 Intangible assets

	Acquired licences DKK'000
Cost beginning of year	11,345
Additions	611
Disposals	(192)
Cost end of year	**11,764**
Amortisation and impairment losses beginning of year	(8,937)
Amortisation for the year	(921)
Reversal regarding disposals	192
Amortisation and impairment losses end of year	**(9,666)**
Carrying amount end of year	**2,098**

6 Property, plant and equipment

	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
Cost beginning of year	98,553	147,677	3,558	16,463
Transfers	12,133	4,330	0	0
Additions	2,427	13,111	1,510	0
Disposals	(581)	(1,654)	0	(16,463)
Cost end of year	**112,532**	**163,464**	**5,068**	**0**
Depreciation and impairment losses beginning of year	(64,864)	(121,790)	(1,136)	0
Depreciation for the year	(2,945)	(7,732)	(815)	0
Reversal regarding disposals	562	1,628	0	0
Depreciation and impairment losses end of year	**(67,247)**	**(127,894)**	**(1,951)**	**0**
Carrying amount end of year	**45,285**	**35,570**	**3,117**	**0**

Other fixtures and fittings, tools and equipment include lease contracts at a book value of DKK 791 thousand.

7 Prepayments

Prepayments include prepaid expenses such as insurance.

8 Share capital

	Number	Nominal value DKK'000
Ordinary shares	2,340	2,340
	2,340	**2,340**

9 Deferred tax

	2019 DKK'000	2018 DKK'000
Property, plant and equipment	3,320	2,747
Inventories	4,699	6,930
Receivables	141	166
Liabilities other than provisions	(247)	(73)
Deferred tax	**7,913**	**9,770**

Changes during the year	2019 DKK'000	2018 DKK'000
Beginning of year	9,770	6,785
Recognised in the income statement	(1,857)	2,985
End of year	**7,913**	**9,770**

10 Non-current liabilities other than provisions

	Due within 12 months 2019 DKK'000	Due within 12 months 2018 DKK'000	Due after more than 12 months 2019 DKK'000
Mortgage debt	2,082	2,081	6,213
Finance lease liabilities	284	0	509
Other payables	0	0	1,955
	2,366	**2,081**	**8,677**

11 Income tax payable

Income tax payable consists of joint taxation contribution.

12 Changes in working capital

	2019 DKK'000	2018 DKK'000
Increase/decrease in inventories	11,484	(14,543)
Increase/decrease in receivables	(11,424)	34,618
Increase/decrease in trade payables etc	(3,243)	2,398
	(3,183)	**22,473**

13 Unrecognised rental and lease commitments

	2019 DKK'000	2018 DKK'000
Liabilities under rental or lease agreements until maturity in total	**0**	**1,021**

Lease agreements have been recognised in the balance sheet.

14 Contingent liabilities

The Entity 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 for income taxes etc for the jointly taxed companies and 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 5 million.

15 Related parties with controlling interest

Below-listed companies, performing a management function and/or, have a controlling interest:

Parent Foundation:
Dr. Frederik Paulsen Foundation
Thistle House, 4 Burnaby Street
Hamilton HM11
Bermuda

Intermediate Parent:
Insula Corporation S.à r.l.
7 Rue Robert Stümper, L-2557
Luxembourg

Insula (Holding) S.à r.l.
7 Rue Robert Stümper, L-2557
Luxembourg

Isles (Holding) B.V.
Siriusdreef 41
2132 WT Hoofddorp
The Netherlands

Isles B.V.
Siriusdreef 41
2132 WT Hoofddorp
The Netherlands

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

Immediate Parent:
Ferring B.V.
Polarisavenue 144
2132 JX Hoofddorp
The Netherlands

16 Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
Insula Corporation S.á.r.l.*
7 Rue Robert Stümper, L-2557
Luxembourg

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Ferring Holding S.A.
Chemin De La Vergognausaz 50
1162 Saint-Prex, Vaud
Switzerland

*The consolidated financial statement can be obtained at the Chamber of Commerce in Luxembourg.

Accounting policies

Reporting class

This annual report has been prepared 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.

Changes in accounting policies

The Entity has decided to change its accounting policy on recognition of leases.

To better achieve a fair presentation of the Entity's financial position and results, leases are recognised in accordance with the accounting principles of the International Financial Reporting Standard IFRS 16 Leases, effective 1 January 2019. IFRS 16 does not distinguish between operating leases and finance leases but requires the recognition of a lease asset (right-of-use asset) and a liability when entering into leases, except for leases with a lease term ending within 12 months (short-term leases) and contracts to lease assets of low value.

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.

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 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 are recognised when incurred.

Production costs also include 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, provisions for loss on contract work in progress are recognised under production costs.

Administrative expenses
Administrative expenses comprise expenses incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies, and 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 gains on transactions in foreign currencies as well as tax relief under the Danish Tax Prepayment Scheme.

Other financial expenses
Other financial expenses comprises interest expenses, realised and unrealised exchange losses on transactions in foreign currencies as well as tax surcharge under the Danish 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).

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 four 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, subsuppliers 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

For assets subject to lease agreements, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

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, and 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.

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
Dividend is recognised as a liability at the time of adoption at the general meeting. Proposed dividend for the financial year is disclosed as a separate item in equity.

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

Finance lease liabilities
Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

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 receivable or payable 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, and 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, and purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

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 and short-term securities with an insignificant price risk less short-term bank debt.