
***Boehringer Ingelheim
Animal Health
Denmark A/S***

Strødamvej 52, DK-2100 København Ø

Annual Report for 2017

CVR No 13 52 69 90

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
04/06 2018

Nedim Pipic
Chairman



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Boehringer Ingelheim Animal Health Denmark A/S for the financial year 1 January - 31 December 2017.

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 2017 of the Company and of the results of the Company operations for 2017.

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.

Copenhagen, 4 June 2018

Executive Board

Niels Berenth From
CEO

Board of Directors

Nedim Pipic
Chairman

Niels Berenth From

Jesper Peulicke

Independent Auditor's Report

To the Shareholder of Boehringer Ingelheim Animal Health Denmark A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2017 and of the results of the Company's operations for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Boehringer Ingelheim Animal Health Denmark A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity 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.

Hellerup, 4 June 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Jan Wright
State Authorised Public Accountant
mne10053

Thomas Lauritsen
State Authorised Public Accountant
mne34342

Company Information

The Company

Boehringer Ingelheim Animal Health Denmark A/S
Strødamvej 52
DK-2100 København Ø

CVR No: 13 52 69 90

Financial period: 1 January - 31 December

Incorporated: 1 October 1989

Financial year: 28th financial year

Municipality of reg. office: Copenhagen

Board of Directors

Nedim Pipic, Chairman
Niels Berenth From
Jesper Peulicke

Executive Board

Niels Berenth From
Jesper Peulicke

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:

	2017	2016	2015	2014	2013
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue*	615,004				
Gross profit/loss	923,046	39,000	34,999	36,143	71,869
Profit/loss before financial income and expenses	811,409	6,430	5,948	9,448	10,083
Net financials	-1,984	-1,060	-854	-1,089	-932
Net profit/loss for the year	628,833	3,876	3,679	5,823	6,410
Balance sheet					
Balance sheet total	794,596	105,916	57,744	60,114	55,006
Equity	687,459	27,603	23,727	20,048	20,225
Investment in property, plant and equipment	4,299	44	256	33	82
Number of employees	108	31	31	31	35
Ratios					
Gross margin*	150.1%				
Profit margin*	131.9%				
Return on assets	102.1%	6.1%	10.3%	15.7%	18.3%
Solvency ratio	86.5%	26.1%	41.1%	33.3%	36.8%
Return on equity	175.9%	15.1%	16.8%	28.9%	25.9%

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

*Comparative figures for 2013-2016 are not shown, as revenue in previous years has been summarized in gross profit in accordance with section 32 of the Danish Financial Statements Act.

*Comparative figures for 2013-2016 are not adjusted after the demerger of Boehringer Ingelheim Danmark A/S' Animal Health activities into Boehringer Ingelheim Animal Health Denmark A/S in 2017.

Management's Review

Key Activities

Boehringer Ingelheim Animal Health Denmark A/S (BIAHDK) main activity is sales and marketing of veterinary products in the Nordic region. Furthermore, the company coordinates the administration of a smaller animal health production facility in Kalundborg (NCC) and a diagnostic development, production and marketing site in Uppsala Sweden (through a Branch).

Additionally, the company is engaged in clinical development programs and contributes to the overall Research & Development activities of the corporation.

Significant events during the year

Until the end of 2016 preparations have been done for a 2017 carve-out of the BI Consumer Healthcare (CHC) portfolio as part of a Corporate agreement with the French Pharmaceutical company Sanofi. In return Sanofi's Animal Health (AH) branch Merial would be integrated into BIAHDK.

The integration of the Merial AH business into BI AH Nordics was a large task of on top of the daily operations in 2017. From January 2017 the two AH companies have been operating out of the office in Copenhagen and a full integration of the businesses occurred during the year.

As a consequence of the above and following Global guidance, in 2017 the company legal setup has been changed to a split into 2 separate legal entities:

- Boehringer Ingelheim Danmark A/S (including HP business)
- Boehringer Ingelheim Animal Health Denmark A/S (incorporation of BI AH Nordics business into existing Merial legal entity incl. a renaming of that entity).

Therefore, the Company has received the Animal Health activities from the demerger of Boehringer Ingelheim Danmark A/S into Boehringer Ingelheim Animal Health Denmark A/S using the pooling of interest method (net book values) with accounting effect 1 January 2017. The net effect of the demerger are recognised directly on the Equity in an amount of DKK 41,671k. The Comparatives has not been restated.

Finally, the Company has sold IP rights (production) to a Group Company with a sales price of DKK 766 million.

Result for the year

The income statement of the Company for 2017 shows a profit of TDKK 628,833, and at 31 December 2017 the balance sheet of the Company shows equity of TDKK 687,459.

Management's Review

Special risks - operating risks and financial risks

With the head office located in Denmark and covering the Nordic region there exist an inherent risk of exchange rate fluctuation between the Danish and Swedish and Danish and Norwegian Kroner. At present no measures are taken to limit the impact of this risk. Parallel import is currently only observed at a low level of a few larger brands in the Nordic region. Parallel import might increase also in Animal Health, but levels significantly impacting business performance is not observed at present. Furthermore, consolidation of primary business relations are increasing the pressure for Animal Health companies to offer preferential terms. The potential impact is considered in the budgeting process.

The future

The main strategy for BIAHDK is to continue, through dedicated species team, to align our market approach to the evolving needs of our primary customers and our portfolio development

Special focus will be on:

- Maintaining our leading position in the swine vaccine market
- Utilize a multimedia approach to protecting and growing our broad companion animal portfolio for both Equine and Pets
- Strengthen our competences in the OTC market capitalizing of the opportunities of having a dedicated team for this segment
- Promoting a responsible use of antibiotics in livestock and thereby maintaining our strong position in the segment

A continued and increased competition is expected in all primary business areas where we are active.

Based on the above, we expect a turnover and result in 2018 in line with 2017 before Other operating income.

Management's Review

Research and development

Research and development follows the primary business purpose of the different sites in BIAHDK:

- Svanova: At the Svanova site in Uppsala Sweden the R&D team is specializing in the development of immunodiagnostic assays for veterinary use with primary focus on combatting infectious diseases in livestock animals
- Kalundborg: R&D for the Kalundborg site is conducted out of the Head Office in Ingelheim Germany, but with one employee located in the BIAHDK organization specializing in Nutritional product development for livestock and companion animals.
- BI-AH-Nordics: The business does not have any research and development projects but takes part in the overall clinical development programs and contributes to the R&D activities of the corporation.

External environment

BIAHDK operate at 3 primary locations with separate influence on the external environment:

- Svanova: Boehringer Ingelheim Svanova follows the Swedish legislation regarding the environmental requirements and the waste disposal is done according to the local requirements of Uppsala municipality. The manufacturing plant in Uppsala is registered by the Swedish Board of Agriculture with registration number SE 3800565311. This facility is under the control responsibility of the Swedish Board of Agriculture.
- Kalundborg: Externally the environmental impact from the BIAHDK Kalundborg site is controlled and approved by the local municipality, Kalundborg Kommune. No critical remarks were reported at a control visit in April 2018. ISO-14001 Environmental Management system will be implemented in 2018 and expected to be active from Q3.
- BI-AH-Nordics: The main activities of the BI-AH Nordics are sales and marketing of Veterinary Pharmaceuticals in the 5 Nordic Countries, which we do not consider having a significant impact on external environment.

Intellectual capital resources

Intellectual capital resources in BIAHDK are a vital part in improving the value and competitiveness of the organization. BIAHDK's intellectual/human capital is driven by the knowledge and competencies residing with the company's employees – our most valuable and relevant resource. This collective know-how is constantly developed with leadership development and training programs as well as proper recruiting of suitable talents. It will remain a key priority for the organization moving forward (at global, regional and local level).

Uncertainty relating to recognition and measurement

There is no significant uncertainty relating to recognition and measurement.

Management's Review

Unusual events

No unusual event occurred during the year, except the Boehringer Ingelheim Danmark A/S' Animal Health activities were demerged into BIAHDK and the sale of IP rights.

Subsequent events

As of 1 January 2018 the share capital was increased by nominally TDKK 3,631 from nominally TDKK 1,000 to a total of TDKK 4,631 by subscription of 3,631 new shares of DKK 1,000. The increase in share capital is already reflected in equity 31 December 2017

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

Income Statement 1 January - 31 December

	Note	2017 TDKK	2016 TDKK
Revenue		615,004	193,459
Other operating income	1	779,153	6,891
Expenses for raw materials and consumables		-348,308	-122,944
Other external expenses		-122,803	-38,406
Gross profit/loss		923,046	39,000
Staff expenses	2	-103,207	-32,066
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-7,373	-504
Other operating expenses		-1,057	0
Profit/loss before financial income and expenses		811,409	6,430
Financial income		104	104
Financial expenses	4	-2,088	-1,164
Profit/loss before tax		809,425	5,370
Tax on profit/loss for the year	5	-180,592	-1,494
Net profit/loss for the year		628,833	3,876

Balance Sheet 31 December

Assets

	Note	2017 TDKK	2016 TDKK
Acquired intangible assets		0	1,343
Goodwill		0	0
Intangible assets	6	0	1,343
Land and buildings		5,132	0
Plant and machinery		25,150	0
Other fixtures and fittings, tools and equipment		1,963	188
Leasehold improvements		62	0
Property, plant and equipment in progress		4,651	0
Property, plant and equipment	7	36,958	188
Other receivables		881	203
Fixed asset investments	8	881	203
Fixed assets		37,839	1,734
Inventories	9	153,132	50,076
Trade receivables		111,101	17,352
Receivables from group enterprises		471,391	3,920
Other receivables		970	242
Corporation tax		11,832	1,216
Prepayments		665	576
Receivables		595,959	23,306
Cash at bank and in hand		7,666	30,800
Currents assets		756,757	104,182
Assets		794,596	105,916

Balance Sheet 31 December

Liabilities and equity

	Note	2017 TDKK	2016 TDKK
Share capital		4,631	1,000
Retained earnings		58,201	18,851
Proposed dividend for the year		624,627	7,752
Equity	10	687,459	27,603
Provision for deferred tax	11	1,769	278
Provisions		1,769	278
Prepayments received from customers		350	0
Trade payables		6,483	2,712
Payables to group enterprises		29,915	62,910
Corporation tax		9,666	0
Other payables		58,954	12,413
Short-term debt		105,368	78,035
Debt		105,368	78,035
Liabilities and equity		794,596	105,916
Distribution of profit	12		
Contingent assets, liabilities and other financial obligations	13		
Related parties	14		
Accounting Policies	15		

Statement of Changes in Equity

	Share capital TDKK	Retained earnings TDKK	Proposed dividend for the year TDKK	Total TDKK
Equity at 1 January	1,000	22,727	3,876	27,603
Net effect from merger and acquisition under the uniting of interests method	3,631	38,040	0	41,671
Adjusted equity at 1 January	4,631	60,767	3,876	69,274
Ordinary dividend paid	0	0	-3,876	-3,876
Exchange adjustments relating to foreign entities	0	-6,772	0	-6,772
Net profit/loss for the year	0	4,206	624,627	628,833
Equity at 31 December	4,631	58,201	624,627	687,459

The net effect from merger and acquisition under the pooling of interests method is related to the demerger of Boehringer Ingelheim Danmark A/S' Animal Health activities into Boehringer Ingelheim Animal Health Denmark A/S as of 1 January 2018 with accounting effect from 1 January 2017. Thus the share increase of TDKK 3,631 are not registered before 1 January 2018.

Notes to the Financial Statements

	2017	2016
	TDKK	TDKK
1 Other operating income		
Other operating income comprise items of a secondary nature relative to the Company's core activities, including gains or losses on the sale of non-current assets.		
Group recharges	1,436	6,891
Gain on sale of product rights	765,764	0
Gain on sale of distribution rights	11,953	0
	779,153	6,891
2 Staff expenses		
Wages and salaries	89,422	28,785
Pensions	8,844	2,824
Other social security expenses	4,941	205
Other staff expenses	0	252
	103,207	32,066
Average number of employees	108	31
Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.		
3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	380	405
Depreciation of property, plant and equipment	6,993	99
	7,373	504
Which is specified as follows:		
Acquired patents	380	405
Other fixtures and fittings, tools and equipment	6,993	99
	7,373	504

Notes to the Financial Statements

	2017 <u>TDKK</u>	2016 <u>TDKK</u>
4 Financial expenses		
Interest expenses, group entities	585	22
Other financial expenses	291	104
Exchange loss	1,212	1,038
	<u>2,088</u>	<u>1,164</u>
5 Tax on profit/loss for the year		
Current tax for the year	178,666	1,531
Deferred tax for the year	1,491	-35
Adjustment of tax concerning previous years	-816	-2
Adjustment of deferred tax concerning previous years	1,251	0
	<u>180,592</u>	<u>1,494</u>
6 Intangible assets		
	Acquired intangible assets	Goodwill
	<u>TDKK</u>	<u>TDKK</u>
Cost at 1 January	2,282	0
Net effect from merger and acquisition	0	1,632
Disposals for the year	-2,282	0
Cost at 31 December	<u>0</u>	<u>1,632</u>
Impairment losses and amortisation at 1 January	939	0
Net effect from merger and acquisition	0	1,632
Amortisation for the year	380	0
Reversal of amortisation of disposals for the year	-1,319	0
Impairment losses and amortisation at 31 December	<u>0</u>	<u>1,632</u>
Carrying amount at 31 December	<u>0</u>	<u>0</u>
Amortised over	<u>3 years</u>	<u>3 years</u>

Notes to the Financial Statements

7 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment in progress
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	0	0	677	0	0
Net effect from merger and acquisition	8,591	45,679	4,412	318	1,533
Additions for the year	0	515	526	0	3,258
Disposals for the year	0	0	-676	0	0
Transfers for the year	0	140	0	0	-140
Cost at 31 December	8,591	46,334	4,939	318	4,651
Impairment losses and depreciation at 1 January	0	0	489	0	0
Net effect from merger and acquisition	1,741	16,608	2,400	227	0
Depreciation for the year	1,718	4,576	670	29	0
Reversal of impairment and depreciation of sold assets	0	0	-583	0	0
Impairment losses and depreciation at 31 December	3,459	21,184	2,976	256	0
Carrying amount at 31 December	5,132	25,150	1,963	62	4,651
Depreciated over	20 years	10 years	3-5 years	3-10 years	

8 Fixed asset investments

	Other receiv- ables
	TDKK
Cost at 1 January	203
Net effect from merger and acquisition	875
Additions for the year	6
Disposals for the year	-203
Cost at 31 December	881
Carrying amount at 31 December	881

Notes to the Financial Statements

	2017 <u>TDKK</u>	2016 <u>TDKK</u>
9 Inventories		
Raw materials and consumables	15,467	0
Work in progress	6,791	0
Finished goods and goods for resale	125,525	50,076
Prepayments for goods	<u>5,349</u>	<u>0</u>
	<u>153,132</u>	<u>50,076</u>

10 Equity

The share capital consists of 10 shares of a nominal value of DKK 100,000. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years. However at 1 January 2018 the share capital was increased by nominally TDKK 3,631 from nominally TDKK 1,000 to a total of TDKK 4,631 by subscription of 3,631 new shares of DKK 1,000.

11 Provision for deferred tax

Provision for deferred tax at 1 January	278	313
Amounts recognised in the income statement for the year	240	-35
Amounts recognised in equity for the year	<u>1,251</u>	<u>0</u>
Provision for deferred tax at 31 December	<u>1,769</u>	<u>278</u>

Amount recognised in equity is due to the demerger of Boehringer Ingelheim Danmark A/S' Animal Health activities into Boehringer Ingelheim Animal Health Denmark A/S as of 1 January 2017.

12 Distribution of profit

Proposed dividend for the year	624,627	3,876
Retained earnings	<u>4,206</u>	<u>0</u>
	<u>628,833</u>	<u>3,876</u>

Notes to the Financial Statements

	2017 TDKK	2016 TDKK
13 Contingent assets, liabilities and other financial obligations		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	6,498	1,291
Between 1 and 5 years	3,159	1,466
	9,657	2,757

Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on the Group's jointly taxed income as well as for Danish withholding taxes through dividend tax and tax on unearned income. The total amount of tax payables is included in the Annual Report of Boehringer Ingelheim Danmark A/S which is the administration Company in relation to the joint taxation.

The company has been claimed regarding a product liability. At the moment there is no solution in this case. The management do not consider the liability to materialise and, hence, no provision has been recognised.

Furthermore the company has assumed those for the branch customary repurchase commitments in respect of goods sold.

Notes to the Financial Statements

14 Related parties

	Basis
Controlling interest	
Boehringer Ingelheim Animal Health International GmbH Germany	Controlling shareholder
Other related parties	
Nedim Pipic	Member of the Board of Directors
Niels Berenth From	Member of the Board of Directors
Jesper Peulicke	Member of the Board of Directors
Niels Berenth From	Executive Board

Transactions

With reference to section 98 C(7) section of the Danish Financial Statements Act, related parties transactions have not been disclosed in the Annual Report.

Notes to the Financial Statements

15 Accounting Policies

The Annual Report of Boehringer Ingelheim Animal Health Denmark A/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2017 are presented in TDKK.

Demerger of Animal Health activities from Boehringer Ingelheim Danmark A/S

The Company has received the Animal Health activities from the demerger of Boehringer Ingelheim Danmark A/S into Boehringer Ingelheim Animal Health Denmark A/S using the pooling of interest method (net book values) with accounting effect as of 1 January 2017. The net effect of the demerger is recognised directly on the Equity in an amount of DKK 41,671k. The Comparatives has not been restated.

Cash flow statement

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

Recognition and measurement

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

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

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

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

Business combinations

Pooling of interests

Intragroup business combinations are accounted for under the pooling-of-interests method. Under this method, the two enterprises are combined at carrying amounts, and no differences are identified. Any

Notes to the Financial Statements

15 Accounting Policies (continued)

consideration which exceeds the carrying amount of the acquired enterprise is recognised directly in equity. The pooling-of-interests method is applied at the date of acquisition, and comparative figures have not been restated.

Translation policies

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

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

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.

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

Staff expenses

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

Amortisation, depreciation and impairment losses

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

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale 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.

Tax on profit/loss for the year

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

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 3 years.

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	20 years
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Notes to the Financial Statements

15 Accounting Policies (continued)

Plant and machinery	10 years
Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	3-10 years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,200 are expensed in the year of acquisition.

Impairment of fixed assets

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

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

Fixed asset investments

Fixed asset investments consist of other receivables.

Inventories

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

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

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

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

Notes to the Financial Statements

15 Accounting Policies (continued)

Prepayments

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

Equity

Dividend

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

Deferred tax assets and liabilities

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

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

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

Current tax receivables and liabilities

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

Financial debts

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

Notes to the Financial Statements

15 Accounting Policies (continued)

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