Affitech A/S

C/O COBIS

Ole Maaløes Vej 3, 2200 Copenhagen

CVR no. 14538372

Annual report 2021

Approved at the Company's annual general meeting on 7 May 2022

Chair of the meeting:

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Alexander Schuster

Contents

Statement by Management

The Board of Directors and the Executive Board have today discussed and approved the annual report of Affitech A/S for the financial year 1 January - 31 December 2021.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2021 and of the results of their operations and consolidated cash flows for the financial year 1 January - 31 December 2021.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the Parent Company's operations and financial matters, the results for the year and the Group's and the Parent Company's financial position.

We recommend that the annual report be approved at the annual general meeting.

7 May 2022
Executive Board:

Michael Braunagel	Stig Jarle Pettersen

Board of Directors:

Alexander Schuster Chair	Daniil Talyanskiy	Aleksandr Andryushechkin

Statement by Management

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The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2021 and of the results of their operations and consolidated cash flows for the financial year 1 January - 31 December 2021.

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We recommend that the annual report be approved at the annual general meeting.

7 May 2022
Executive Board:

Michael Braunagel	Stig Jarle Pettersen

Board of Directors:

Alexander Schuster Chair	Daniil Talyanskiy	Aleksandr Andryushechkin

Independent auditor's report

To the shareholder of Affitech A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Affitech A/S for the financial year 1 January – 31 December 2021, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the Parent Company, and a consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2021 and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 January – 31 December 2021 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 consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act. Moreover, Management is responsible 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 Group's and the Parent 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 Group or the Parent 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 as to 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 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 the financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and 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 Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review 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'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 of the Management's review.

7 May 2022
EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Rasmus Bloch Jespersen
State Authorised
Public Accountant
mne35503

Management's review

Company details

Name	Affitech A/S
Address, postal code, city	C/O COBIS, Ole Maaløes vej 3, 2200 Copenhagen
CVR no.	14538372
Established	1 October 1990
Registered office	Copenhagen, Denmark
Financial year	1 January – 31 December
Executive Board	Michael Braunagel Stig Jarle Pettersen
Board of Directors	Alexander Schuster (chairman), Daniil Talyanskiy Aleksandr Andryushechkin
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36, 2000 Frederiksberg, Denmark

Management's review

Financial highlights for the Group

DKK'000	2021	2020
Key figures		
Revenue	306,740	505,345
Operating profit	295,528	500,953
Net financials	10,275	1,601
Profit for the year	236,753	436,577
Non-current assets	657,501	41
Current assets	132,363	516,346
Balance sheet total	789,864	516,387
Investments in property, plant and equipment	-	-
Equity	713,213	444,882
Current liabilities	76,651	71,505
Cash flows from operating activities	229,826	506,983
Cash flows from investing activities	-645,007	-
Cash flows from financing activities	-	-
Total cash flows	-415,181	506,983
Financial ratios		
Operating margin	96%	97%
Current ratio	1.7	7.2
Return on equity	41%	1.9%
Average number of full-time employees	2	2

The financial ratios stated under "Financial highlights" have been calculated as follows:

Operating margin $$\frac{\text{Operating profit/loss (EBIT) x 100}}{\text{Revenue}}$$

Current ratio $$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$$

Return on equity $$\frac{\text{Profit/loss for the year after tax ex. non-controlling interests x 100}}{\text{Average equity ex non-controlling interests}}$$

Management's review

Operating review

Principal activities

Affitech A/S ('the Company') is a biopharmaceutical company dedicated to the discovery and development of fully human antibody therapeutics against cancer and other serious diseases. The Parent Company is mainly a holding company and the Group does not have any significant activities other than maintenance of out-license and collaboration agreements entered into in prior years.

The Affitech A/S Group comprises the Parent Company Affitech A/S and its fully-owned subsidiaries Affitech Research AS (Norway) and Actigen Ltd. (UK) (together referred to as 'the Group').

Development in activities and financial matters

The Group's income statement for the year ended 31 December 2021 shows a profit for the year of DKK 236,753 thousand against a profit of DKK 436,577 thousand for the year 2020. The balance sheet at 31 December 2021 shows equity of DKK 713,213 thousand. Profits for the years 2021 and 2020 are positively impacted by payments received by the Norwegian subsidiary, Affitech Research AS, under and IP asset sales agreement entered into in 2020.

The Company's income statement for the year ended 31 December 2021 shows a net profit of DKK 20,593 thousand, against a net profit of DKK 124,803 thousand for the year 2020. The balance sheet at 31 December 2021 shows equity of DKK 149,159 thousand. Profit for the year 2021 is positively impacted by dividend income from the Norwegian subsidiary, Affitech Research AS.

The Executive Board recommends distribution of the profit as stated under the proposed distribution of profit.

As the Company prepared financial statements in accordance with the provisions in the Danish Financial Statements Act applying to reporting class B entities in 2020, the Company has not previously expressed expectations about the financial year 2021.

COVID-19 and the Ukraine war

While the Company has not experienced a material adverse impact from COVID-19 and the Ukraine war on the financial statements for 2021, the Company is monitoring the potential impact of COVID-19 and the Ukraine war on its financial reporting for 2022 and beyond, as the impact of the COVID-19 pandemic and the Ukraine war continues to unfold.

Outlook

For 2022 the Group expect to realise revenue from license and collaboration agreements in the range of DKK 37-42 million and net profit after tax in the range of DKK 27-32 million.

Risks

Financial risks

The Company monitors the risk factors that may affect the operations and financial results on a regular basis.

Currency risks

The Group's cash position is denominated in NOK and the Group's loan receivables from its parent company are fixed interest loans denominated in CHF. As such, the Group is exposed to fluctuations in these currencies. The Company does not hedge currency risks on assets and liabilities denominated in foreign currencies.

Management's review

Operating review

Interest rate risk

The Group's loan receivable from the parent company is a fixed interest loan.

Corporate social responsibility

The Company is a holding company without significant operating activities. The Company has made a risk assessment of its activities, and no material risks within corporate social responsibility were identified. Therefore, policies involving social and employee conditions, environment, climate, human rights and anti-corruption are not prepared.

Account of the gender composition of Management and the Board of Directors

The Company is a holding company without significant operating activities and has no employees other than the two members of the Executive Board. As such, the Company has not determined any target figures and policies for the gender composition of the Executive Board.

Currently, the members of the Company's Board of Directors, who are not employee representatives, consist of 3 men and 0 women. In order to obtain a higher gender diversity, we will recommend more women to stand as a candidate in connection with upcoming election of the Board of Directors. We target at least 20% female board members in 2024.There were no relevant female candidates in the 2021 board elections, which is why the target figure was not achieved.

Data Ethics

While the Company appreciates importance of responsible data sharing and data ethics and follows appropriate privacy regulations, the Company has, as a holding company without significant operating activities, not prepared any company specific policy for data ethics.

Significant events after the end of the financial year

No events with significant effect on the annual report for 2021 has occurred after the balance sheet date.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Income statement

		Group		Parent Company	
Note	DKK'000	2021	2020	2021	2020
1	Revenue	306,740	505,345	-	-
2, 11	Administrative expenses	-11,212	-4,382	-505	-418
	Research and development expenses	-	-10	-	-10
	Operating profit/loss	295,528	500,953	-505	-428
	Income from investments in subsidiaries	0	0	21,964	125,628
3	Financial income	91,925	1,623	0	139
4	Financial expenses	-81,650	-22	-866	-536
	Profit before tax	305,803	502,554	20,593	124,803
5	Tax on continuing operations	-69,050	-65,977	-	-
	Profit for the year	236,753	436,577	20,593	124,803

Consolidated financial statements and parent company financial statements 1 January – 31 December

Balance sheet

		Group		Parent Company	
Note	DKK'000	2021	2020	2021	2020
	ASSETS				
	Non-current assets				
6	Equity investments in group entities	-	-	147,000	147,000
7	Loan receivable from group entities	657,460	-	-	-
	Deposits	41	41	41	41
	Total non-current assets	657,501	41	147,041	147,041
	Current assets				
	Receivables from group entities	-	-	1,965	-
	Other receivables	809	354	131	57
8	Prepayments	51	38	51	38
	Cash	131,503	515,954	-	43
	Total current assets	132,363	516,346	2,147	138
	TOTAL ASSETS	789,864	516,387	149,188	147,179
	EQUITY AND LIABILITIES				
	Equity				
9	Share capital	4,877	4,877	4,877	4,877
	Other reserves	-	-	82,913	82,913
	Retained earnings	708,336	440,005	61,369	40,776
	Total equity	713,213	444,882	149,159	128,566
	Non-current liabilities				
	Payables to group entities	-	-	-	18,095
	Total current liabilities	-	-	-	18,095
	Current liabilities				
	Trade payables	628	1,088	29	518
	Corporation tax	70,382	66,806	-	-
	Other payables	5,642	3,611	-	-
	Total current liabilities	76,651	71,505	29	518
	TOTAL EQUITY AND LIABILITIES	789,864	516,387	149,188	147,179

10 Deferred tax assets
11 Staff costs and incentive plans
12 Contractual obligations and contingencies, etc.
13 Related parties
14 Distribution of profit
15 Events after the balance sheet date
16 Accounting policies

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of changes in equity

Group

Note	DKK'000	Share capital	Retained earnings	Total equity
	Equity at 1 January 2020	4,877	-937	3,940
	Profit for the year	-	436,577	436,577
	Foreign exchange adjustments of foreign group entities	-	4,365	4,365
	Equity at 1 January 2021	4,877	440,005	444,882
	Profit for the year	-	236,753	236,753
	Foreign exchange adjustments of foreign group entities	-	31,578	31,578
	Equity at 31 December 2021	4,877	708,336	713,213

Statement of changes in equity

Parent

Note	DKK'000	Share capital	Other reserves	Retained earnings	Total
	Equity at 1 January 2020	4,877	82,913	-84,027	3,763
14	Transferred; see distribution of profit	-	-	124,803	124,803
	Equity at 1 January 2021	4,877	82,913	40,776	128,566
14	Transferred; see distribution of profit	-	-	20,593	20,593
	Equity at 31 December 2021	4,877	82,913	61,369	149,159

Consolidated financial statements and parent company financial statements 1 January – 31 December

Cash flow statement

Note	DKK'000	Group 2021	Group 2020
	Profit for the year	236,753	436,577
	Income taxes	69,050	65,977
	Financial expenses	81,650	22
	Financial income	-91,925	-1,623
	Changes in working capital		
	Changes in other receivables and pre-payments	-467	5,345
	Changes in trade payables and other payables	1,571	686
	Cash generated from operations	296,632	506,983
	Interest received	0	-
	Interest paid	0	-
	Corporation tax paid	-66,806	-
	Cash flows from operating activities	229,826	-
	Issuance of intercompany loans	-645,007	-
	Cash flows from investing activities	-645,007	-
	Cash flows from financing activities	-	-
	Cash flows for the year	-415,181	506,983
	Cash, beginning of year	515,953	2,140
	Currency adjustment of cash	30,731	6,830
	Cash, year end	131,503	515,953

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Revenue

In 2020, the Group, via its subsidiary, Affitech Research AS, entered into an agreement with an international pharmaceutical company that has resulted in a payment of DKK 505,345 thousand (CHF 75 million) in 2020, which was recognised as revenue in 2020. The same agreement has resulted in a payment of DKK 266,518 thousand (CHF 40 million) in 2021, which is recognised as revenue in 2021.

The agreement is based on a licensing agreement from 2007 in which Affitech Research AS granted an international pharmaceutical company a license for one of the Company's antibodies. This agreement entitled Affitech Research AS with the right to future milestone payments and royalties. The agreement entered into in 2020 replaced the right to future milestone payments and royalties with a lump sum.

In 2021, the Company entered into an agreement with a third party that has resulted in a payment of DKK 40,221 thousand (USD 6 million), which is also recognised as revenue in 2021. This third party had a possible claim for some of the revenue in CHF mentioned above, but the agreement entered into implies that such claims have been waived in exchange for this company having been granted certain rights in relation to the international pharmaceutical company. In coming periods, the group, via Affitech Research AS, may receive additional amounts from the third party if certain milestones are achieved.

2 Fees paid to auditor appointed at the annual general meeting

Total fees to EY	Group		Parent Company	
DKK'000	2021	2020	2021	2020
Fee for statutory audit	107	79	60	34
Tax consultancy	24	180	24	180
Non-audit services	33	18	25	12
	164	277	109	226

3 Financial income

Interest income, group entities	1,099	-	-	-
Foreign exchange gains	90,826	1,623	-	1
Other interest income	-	-	0	138
	91,925	1,623	0	139

4 Financial expenses

Interest expenses, group entities	-	-	561	528
Foreign exchange losses	80,551	-		-
Other interest expenses	1,099	22	305	8
	81,650	22	866	536

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

DKK'000	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
5 Tax for the year				
Current tax for the year	69,050	65,977	-	-
Deferred tax adjustment for the year	-	-	-	-
	69,050	65,977	-	-

DKK'000	Parent Company 2021	Parent Company 2020
6 Equity investments in group entities		
Cost at 1 January	147,000	147,000
Additions	-	-
Cost at 31 December	147,000	147,000
Impairment adjustments at 1 January	-	125,628
Reversal of prior year's impairments	-	125,628
Impairment adjustments at 31 December	-	-
Carrying amount at 31 December	147,000	147,000

Name and registered office	Voting rights and ownership	Profit/loss DKK'000	Equity DKK'000
Affitech Research AS, Norway	100%	238,611	710,837
Actigen Ltd, United Kingdom	100%	-5,613	-27,714

All group entities are independent entities.

DKK'000	Group 2021	Group 2020
7 Loan receivable from group entities		
Balance at 1 January	-	-
Issuance of loans	645,007	-
Interest income	1,099	-
Currency adjustments	11,354	-
Balance at 31 December	657,460	-

In November 2021, the Group, via its subsidiary, Affitech Research AS, issued a CHF 91 million loan to the sole shareholder for the Group, N35 Financial Limited. The loan carries an interest of 2%. The loan, including accrued interest, falls due for payment on 23 November 2024.

8 Prepayments

Prepayments for the Group and the Parent Company relate to prepaid expenses, insurance, rent, etc.

9 Share capital

The share capital comprises:

487,721,539 A shares of DKK 0.01 nominal value each.

No shares carry special rights.

The Company held no treasury shares at the balance sheet date. No treasury shares were acquired or sold in the financial year.

	Group		Parent Company	
DKK'000	2021	2020	2021	2020
10 Deferred tax assets				
Deferred tax assets at 1 January	202,960	273,725	194,578	220,425
Deferred tax adjustment for the year	-32,917	-70,765	-35,934	-25,847
Deferred tax assets at 31 December	170,043	202,960	158,644	194,578
Deferred tax assets relate to:				
Current assets	5,403	3,794	-	-
Tax loss carry-forwards	164,640	199,166	158,644	194,578
	170,043	202,960	158,644	194,578
Adjustment for deferred tax asset not recognised	-170,043	-202,960	-158,644	-194,578
Deferred tax is recognised in the balance sheet at 31 December	0	0	0	0

Deferred tax assets are not recognised for accounting purposes due to uncertainty as to the future utilization of deferred tax assets.

	Group		Parent Company	
DKK'000	2021	2020	2021	2020
11 Staff costs				
Wages and salaries	1,108	1,107	-	-
Pensions	66	66	-	-
Other social security costs	144	144	-	-
	1,318	1,317	-	-
Staff costs are recognised in the income statement as follows:				
Administrative expenses	1,318	1,137	-	-
Research and development expenses	-	-	-	-
	1,318	1,137	-	-
Average number of full-time employees	2	2	-	-

The Executive Board represents the two employees in 2021 and 2020.

12 Contractual obligations and contingencies, etc.

Contingent liabilities

The Parent Company and the Group have entered into operating lease agreements, under which, the remaining nominal residual lease payment amounts to DKK 4 thousand (2021: DKK 4 thousand).

13 Related parties

Affitech A/S' related parties comprise the following:

Shareholders

N35 Financial Limited, Limassol, Cyprus.
N35 Financial Limited is the sole shareholder of Affitech A/S.

Subsidiaries

Affitech Research AS, Norway
Actigen Ltd, United Kingdom

Related party transactions

DKK'000	2021	2020
Group		
Interest income on loan receivable from shareholder	1,099	-
Loan receivables from shareholder	657,460	-
Parent Company		
Dividend income	21,964	-
Interest expenses, group entities	561	528
Receivables from group entities	1,965	-
Payables to group entities	-	18,095

Apart from the issuance of loan receivable, no other transactions were carried out with the shareholder during the year.

Remuneration of the Parent Company's Executive Board and the Board of Directors

Remuneration to the Executive Board is disclosed in note 11.
No remuneration is paid to the Board of Directors in 2021 and 2020.

	Parent Company	
DKK'000	2021	2020
14 Distribution of profit		
Proposed distribution of profit	20,593	124,803
	20,593	124,803

15 Events after the balance sheet date

No events materially affecting the Company's financial position have occurred subsequent to the financial year-end.

Consolidated financial statements and parent company financial statements 1 January – 31 December

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16 Accounting policies

The annual report of Affitech A/S for 2021 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

Presentation currency

The financial statements are presented in Danish Kroner (DKK'000).

Consolidated financial statements

Control

The consolidated financial statements comprise the Parent Company Affitech A/S and group entities controlled by Affitech A/S.

Control means the power to exercise decisive influence over a group entity's financial and operating decisions. Moreover, the possibility of yielding a return from the investment is required.

In assessing whether the Parent Company controls an entity, de facto control is also taken into consideration.

The existence of potential voting rights that may currently be exercised or converted into additional voting rights is considered when assessing whether an entity may become empowered to exercise decisive influence over another entity's financial and operating decisions.

Preparation of consolidated financial statements

The consolidated financial statements are prepared as a consolidation of the Parent Company's and the individual group entities' financial statements, which are prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends as well as realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates and equity interests are eliminated in proportion to the Group's ownership interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains unless they do not reflect impairment.

The group entities' financial statement items are included 100% in the consolidated financial statements.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Foreign group entities, associates and equity interests are considered separate entities. The income statements are translated at the average exchange rates for the month, and the balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of the opening equity of foreign group entities at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates at the balance sheet date are recognised directly in equity.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

16 Accounting policies (continued)

Foreign exchange adjustments of balances with independent foreign group entities that are considered part of the total net investment in the group entity are recognised directly in the translation reserve under equity. Correspondingly, foreign exchange gains and losses on loans and derivative financial instruments hedging net investments in foreign group entities are recognised directly in the translation reserve under equity.

On translation of foreign group entities that are integral entities, monetary items are recognised at the exchange rates at the balance sheet date. Non-monetary items are recognised at the exchange rates at the acquisition date or at the date of any subsequent revaluation or impairment of the asset. Income statement items are translated at the exchange rates at the transaction date, although items derived from non-monetary items are translated at the historical exchange rates applying to the non-monetary items.

Income statement

Revenue

The Company has chosen IAS 11/IAS 18 as interpretation for revenue recognition.

On the conclusion of sales contracts that consist of several separate sales transactions, the contract price is split up into the individual sales transactions based on the relative fair value approach. The separate sales transactions are recognised as revenue when the criteria for sale of goods and services are met.

A contract is split up into individual transactions when the fair value of each individual sales transaction can be estimated reliably and when each individual sales transaction represents a stand-alone value for the buyer. Sales transactions are deemed to have a stand-alone value for the buyer when the transaction is individually identifiable and usually sold separately.

Revenue consists of revenue from collaboration agreements, comprising upfront, milestone payments, licenses, royalty and compensation for research and development services rendered to third parties. Milestone payments that are attributable to specific milestone events as a consequence of previous research and/or development activities are recognized as revenues at the time when it is certain that the milestone has been met.

Revenue from the sale of licenses and intangible rights is recognized when earned according to the terms of the collaboration agreement. Sale of licenses and intangible rights comprise either access to or use of intellectual property. Revenue allocated to a license and intangible rights that conveys a right to access will be recognized over the term of the license. Revenue allocated to a license and intangible rights that conveys a right to use will be recognized when the license is granted.

Revenue is measured at the fair value of the agreed consideration exclusive of VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Administrative expenses

Administrative expenses comprise costs incurred in the year to manage and administer the Group, including expenses related to administrative staff, management, office premises, office expenses and amortisation/depreciation.

Income from investments in group enterprises

The item includes dividend received from investments in group enterprises and impairment and reversal of reversal of prior year's impairment of investments in group enterprises.

Reversal of prior year's impairment of investments in group entities is accounted for as income from investments in group entities.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

16 Accounting policies (continued)

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Financial income and expenses comprise interest income and expenses, gains and losses on payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax for the year

Tax for the year comprises current income tax, joint taxation contribution and changes in deferred tax for the year due to changes in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts recognised directly in equity is recognised directly in equity.

Balance sheet

Leases

The Company has chosen IAS 17 as interpretation for classification and recognition of leases.

On initial recognition, leases for assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are measured in the balance sheet at the lower of fair value and the present value of future lease payments. In calculating the present value, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently accounted for as the Company's other assets.

The capitalised residual lease commitment is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

All other leases are considered operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total liabilities relating to operating leases and other leases are disclosed under contingencies, etc.

Equity investments in group entities in the parent company financial statements

Equity investments in group entities are measured at cost.

Impairment of non-current assets

Investments in subsidiaries are subject to an assessment for indications of impairment other than the decrease in value reflected by depreciation or amortisation. Impairment tests are conducted in respect of individual assets or groups of assets generating separate cash flows when there are indications of impairment. The assets are written down to the higher of the value in use and net realisable value (recoverable amount) of the asset or group of assets if this is lower than the carrying amount.

Impairment tests are conducted on assets or groups of assets when there is indication of impairment. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

Consolidated financial statements and parent company financial statements 1 January – 31 December

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16 Accounting policies (continued)

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses on investments in subsidiaries are reversed when the reason for impairment no longer exists.

An assessment is made annually to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indications exist, the Company estimates the asset's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the assets does not exceed its recoverable amount or the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement.

Receivables

Receivables are measured at amortised cost.

The Company has chosen IAS 39 as interpretation for impairment write-down of financial receivables.

Write-down for bad and doubtful debts is made when there is objective evidence that a receivable has been impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate of the individual receivable or portfolio is used as discount rate.

The Company's tax account deposits are classified as "Other receivables".

Prepayments

Prepayments recorded as assets comprise expenses relating to subsequent reporting years such as prepaid expenses regarding rent, licenses, insurance premiums, and subscription fees.

Equity

Translation reserve

The translation reserve comprises the share of foreign exchange differences arising on translation of financial statements of entities that have a functional currency other than DKK, foreign exchange adjustments of assets and liabilities considered part of the Company's net investments in such entities and foreign exchange adjustments regarding hedging transactions that hedge the Company's net investments in such entities. The reserve is dissolved on the sale of foreign entities or if the conditions for effective hedging no longer exist. When equity investments in group entities and associates and participating interests in the parent company financial statements are subject to the limitation requirement in the net revaluation reserve according to the equity method, foreign exchange adjustments will be included in this equity reserve instead.

Corporation tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on taxable income in previous years and tax paid on account.

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16 Accounting policies (continued)

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to non-deductible goodwill and on office premises and other items where temporary differences – apart from acquisitions – arise at the acquisition date without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Liabilities

Financial liabilities are recognised at the date of borrowing at the proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Cash flow statement

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

The cash flow effect of acquisitions and disposals of entities is shown separately in cash flows from investing activities. Cash flows from acquisitions of entities are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of entities are recognised up until the date of disposal.

Cash flows from operating activities

Cash flows from operating activities are calculated as the Group's share of the profit/loss adjusted for non-cash operating items, changes in working capital, interest received and paid as well as corporation tax paid. Interest received is classified as cash flows from operating activities. Furthermore, dividends received are classified as operating activity.

Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities, activities and intangible assets, property, plant and equipment and investments. Dividends received regarding securities are also considered investing activities.

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the Group's share capital and related costs as well as the raising of loans, repayment of interest-bearing debt and payment of dividend to shareholders.

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16 Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a remaining term of three months or less that are subject to only minor risks of changes in value.

Segment information

The Group is managed by the Executive Board. No separate business areas or separate business units have been identified in connection with the line of business, product candidates or geographical markets. The Company do not have recurring revenues from its collaboration agreements, and it is not possible to divide into meaningful segments. Consequently, no segment is disclosed by activities and geographical markets.