Visiopharm A/S

Agern Allé 24, DK-2970 Hoersholm
CVR no. DK 26 18 66 76

Annual report for the financial year 01.10.19 - 30.09.20

This annual report has been adopted at the company's annual general meeting on 15 /12 2020

Chairman of the meeting:
Marianne Machholdt

Contents

Group information etc.

The company

Visiopharm A/S
Agern Allé 24
DK-2970 Hoersholm
Tel.: 72 40 29 90
Fax: 45 87 19 11
Registered office: Hoersholm
CVR no.: DK 26 18 66 76
Financial year: 01.10 – 30.09

Executive Board

Michael Grunkin
Johan Doré Hansen

Board of Directors

Patrik Olof Dahlén, chairman
Martin Bonde
Claus Henrik Berner Møller
Henrik Stender
Thomas Weilby Knudsen
Susanne Høiberg

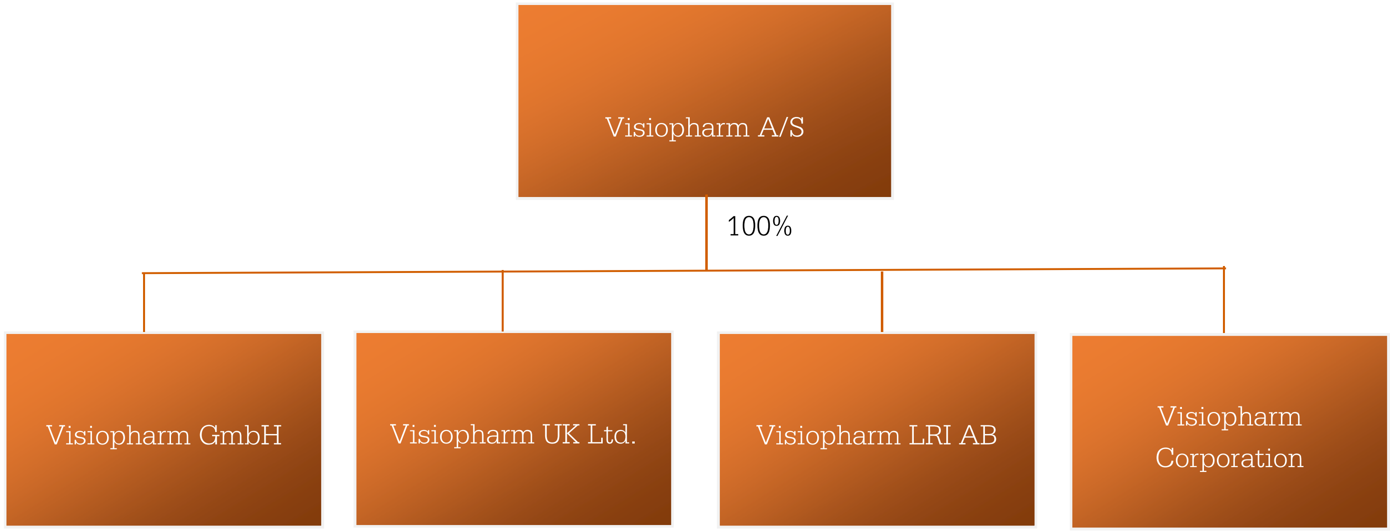
Auditors

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR-no.: DK 33 96 35 56

Subsidiaries

Visiopharm Corporation, USA
Visiopharm LRI AB, Sweden
Visiopharm UK Limited, England
Visipharm GmbH, Germany

Group chart


Visiopharm A/S
100%
Visiopharm GmbH
Visiopharm UK Ltd.
Visiopharm LRI AB
Visiopharm Corporation

Statement by the Board of Directors and the Executive Board on the annual report

The Board of Directors and the Executive Board have today considered and adopted the annual report of Visiopharm A/S for the financial year 1 October 2019 – 30 September 2020.

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as approved by the EU and additional Danish disclosure requirements in the Danish Financial Statements Act (*Årsregnskabsloven*) for annual reports of class B companies. The financial statements of the parent company, Visiopharm A/S, have been prepared in accordance with the Danish Financial Statements Act (*Årsregnskabsloven*).

In our opinion, the consolidated financial statements and financial statements give a true and fair view of the group's and the parent's assets, liabilities and financial position as at 30 September 2020 and of the results of the group's and the parent's activities and of the group's cash flows for the financial year 1 October 2019 – 30 September 2020.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Hoersholm, November 26, 2020

Executive Board

Michael Grunkin	Johan Doré Hansen

Board of Directors

Patrik Olof Dahlén Chairman	Martin Bonde	Claus Henrik Berner Møller
Thomas Weilby Knudsen	Susanne Høiberg	Henrik Stender

To the shareholders of Visiopharm A/S

Opinion

We have audited the consolidated financial statements and the financial statements of Visiopharm A/S for the financial year 1 October 2019 - 30 September 2020, which comprise the income statement, balance sheet, statement of changes in equity and notes to the consolidated financial statements and the financial statements, including a summary of significant accounting policies, for the group and the company as well as the consolidated statement of comprehensive income and the consolidated cash flow statement. The consolidated financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of class B companies, and the financial statements have been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the group's assets, equity and liabilities and financial position as at 30 September 2020 and the group's financial performance and cash flows for the financial year 1 October 2019 – 30 September 2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of class B companies.

Furthermore, in our opinion, the financial statements present fairly, in all material respects, the company's assets, equity and liabilities and financial position as at 30 September 2020 and the company's financial performance for the financial year 1 October 2019 – 30 September 2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing 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 consolidated financial statements and the financial statements' section of the auditor's report. We are independent of the group and the company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement regarding the management's review

The management is responsible for the management's review.

Our opinion on the consolidated financial statements and the financial statements does not include the management's review, and we do not express any form of opinion on the management's review.

In connection with our audit of the consolidated financial statements and the financial statements, it is our responsibility to read the management's review and in this connection consider whether the management's review is materially inconsistent with the consolidated financial statements or the financial statements or the knowledge we have obtained during our audit, or in any other way appears to be materially misstated.

Furthermore, it is our responsibility to consider whether the management's review contains the information required under the Danish Financial Statements Act.

Based on the work performed, we believe that the management's review is in accordance with the consolidated financial statements and the financial statements and has been prepared in accordance with the provisions of the Danish Financial Statements Act. We have not detected any material misstatement in the management's review.

Management's responsibilities for the consolidated financial statements and the financial statements

The management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of class B companies and for the preparation of financial statements that provide a fair presentation in accordance with the Danish Financial Statements Act. Furthermore, the management is responsible for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements and financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the financial statements, the management is responsible for assessing the group's and 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 unless the management either intends to liquidate the group and the company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and 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 International Standards on Auditing 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 consolidated financial statements and financial statements.

As part of an audit conducted in accordance with International Standards on Auditing and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and 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 company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting in its preparation of the consolidated financial statements and 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 consolidated financial statements and 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 company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- 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.

Copenhagen, November 26, 2020

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR no. 33 96 35 56

Bill Haudal Pedersen	Bjørn Würtz Rosendal
State Authorized Public Accountant	State Authorized Public Accountant
MNE no. Mne30131	MNE no. Mne40039

Main activities

The technology focus of the company is AI-driven Precision Pathology, providing highly standardized tissue data as decision support for pathologists and oncologists. Key markets and applications are in tissue diagnostics, translational research (i.e. development of companion diagnostic decision support), and basic tissue-based research. Customers include biopharma, tissue diagnostic companies, contract research organizations, academic medical centers, and basic research institutions.

Development in the company’s financial activities and affairs

Gross Profit grew from mDKK 55.9 in FY2018-19 to mDKK 64.7, corresponding to 16%. This is significantly lower than the growth rates last year, and lower than anticipated in the business plan. This is mainly due to the Covid-19 related global lockdown starting in March, impacting the second half of the year. For the first half of the year, prior to the lockdown, we saw growth rates on bookings of 40% compared to same period the previous year.

The lockdown meant that customers were temporarily unable to issue purchase orders, and consequently no new orders were received during April and May. By the fourth quarter of the fiscal year, the markets started to reopen, and we were able to regain momentum in the last quarter. This momentum appears to continue into the new fiscal year.

We also note a small decrease in top-line revenues from mDKK 87.9 in FY2018-19 to mDKK 84.3 in FY2019-20, corresponding to a 4.3% decrease. This is mainly due to a different product mix, where fewer slide scanners but more software was sold. That is also reflected in the increased gross profit described above, which management regard as a positive development.

It should also be noted that numbers are impacted by a gradual shift away from sales of perpetual licenses to subscription contracts. This has been well received by the market, which is very satisfying. We have generally been able to invoice the first 12 months upfront, so the shift has not impacted our cash-flow in significantly. But it has impacted our revenues, as only part of the order can be recognized within the fiscal year. We expect to start seeing positive effects of the shift towards recurring revenues already in the coming fiscal year.

Two other significant events have shaped this year:

1. With low or no visibility into the development of closing markets, and Visiopharm not being eligible for any of the government funded help packages, management saw no alternative to trim costs corresponding to a headcount reduction of 15%. To the extent that those headcounts were in sales, this has caused a delay in further scaling of the sales channel.
2. To protect our technology leadership position on AI-driven Precision Pathology, management found it important to maintain and grow momentum in our strategic product development roadmap. It has been possible to achieve this by raising additional capital of mDKK 50 with BankInvest in the role as lead investor. We consider this as an important vote of confidence, not only in the market of Visiopharm, but also in Visiopharm’s position.

During the year, Visiopharm has also further strengthened its executive management team, with international experts in diagnostic digital pathology. Visiopharm intend to further grow product portfolio and market share in this important and growing market segment.

Cancer diagnostics

ONCOtopix® Dx is a unique and patent protected product that solves key problems within can-cer diagnostics: 1) Improving standardization and accuracy of digitized tissue-based assay, which it required for optimal treatment planning and patient care, and 2) Enabling assessment of new and complex diagnostic biomarkers in the tumor micro-environment, which is a pre-requisite for identifying responders to new and promising immunotherapies and 3) increased automation and productivity which addresses an increasing demand for improved turnaround times and a lack of specialized pathologists.

Cancer research

Improved interpretive accuracy is also of key importance in drug development, biomarker development / validation, contract research and in basic cancer research, where important scientific- and business decisions are based on this tissue- and biomarker data. These market segments continue to grow significantly.

The key product in the research segment is ONCOtopix® Discovery. The system is an open platform, which allows for fast/easy development of new APPs, thus enabling fast turnaround of testing new scientific hypotheses as they evolve.

APPs that are developed, tested and validated through the research project can be “locked” and transferred to the diagnostic platform. ONCOtopix® Discovery is today leading as platform technology for tissue based cancer research.

Development in important KPIs

Key figures

Figures in DKK '000	2019/20	2018/19	2017/18	2016/17
Profit/loss				
Revenue	84,262	87,920	56,256	62,451
Index	135	141	90	100
Gross profit I	64,713	55,856	38,012	40,101
Gross profit I margin	77%	64%	68%	64%
Gross profit II	44,546	33,672	22,221	26,786
Gross profit II margin	53%	38%	40%	43%
Profit/loss before depreciation, amortization, write-downs and impairment losses (EBITDA)	-20,186	-18,943	-9,340	4,374
EBITDA margin	-24%	-22%	-17%	7%
Profit/loss before net financials (EBIT)	-29,106	-23,305	-12,831	24
EBIT margin	-35%	-27%	-23%	0%
Profit/loss before tax (EBT)	-31,746	-23,746	-13,428	-285
EBT margin	-38%	-27%	-24%	0%
Profit/loss for the year	-26,308	-21,686	-21,961	-351
Balance				
Total assets	154,187	115,483	127,659	49,845
Index	309	232	256	100
Equity	100,466	77,115	99,323	21,683
Index	463	356	458	100
Cash flow				
Operating activities	-9,439	-13,380	-11,857	-5,327
Investing activities	-6,528	-7,776	-5,423	543
Financing activities	43,860	-824	104,151	0
Cash flow for the year	27,893	-21,980	86,871	-4,784

In 2019/20 the leasing accounting policies were amended. The comparative figures have not been adjusted for the change of policy for the years 2016/17-2018/19. Reference is made to the accounting policies.

Ratios

Figures in DKK '000	2019/20	2018/19	2017/18	2016/17
Profitability				
Return on equity	-30%	-25%	-20%	-2%
Assets turnover	0,62	0,72	0,63	1,78
Equity ratio				
Equity interest	65%	67%	78%	44%
Others				
Number of employees (average)	81	73	44	37

Ratios definitions

Return on equity:	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$
Gross margin I:	$\frac{\text{Gross profit I x 100}}{\text{Revenue}}$
Gross margin II:	$\frac{\text{Gross profit II x 100}}{\text{Revenue}}$
EBITDA margin:	$\frac{\text{EBITDA x 100}}{\text{Revenue}}$
EBIT margin:	$\frac{\text{EBIT x 100}}{\text{Revenue}}$
EBT margin:	$\frac{\text{EBT x100}}{\text{Revenue}}$
Assets turnover:	$\frac{\text{Revenue}}{\text{Average total assets}}$
Equity interest:	$\frac{\text{Equity, end of year x 100}}{\text{Total assets}}$

Treasury shares

	Cost DKK	Quantity	Nominal Value DKK	Percent of capital
Holding of treasury shares as at 01.10.19	6.813.372	33.894	33.894	2,09%
Additions during the year	2,832,371	14,090	14,090	0,86%
Total as at 30.09.20	9,645,743	47,984	47,984	2,95%

Treasury shares are purchased for use as share-based payment.

Important events occurring after the end of the financial year

No events having a significant effect on the company's financial position have occurred in the period subsequent to September 30, 2020.

Consolidated income statement and statement of comprehensive income

Note		2019/20 DKK '000	2018/19 DKK '000
3	**Revenue**	**84,262**	**87,920**
4	Other operation income	593	0
	Cost of raw materials and consumables	-20,142	-32,064
	Gross profit I	**64,713**	**55,856**
	Other external expenses	-20,167	-22,184
	Gross profit II	**44,546**	**33,672**
5	Staff costs	-64,732	-52,615
	Profit/loss before depreciation, amortization, write-downs and impairment losses (EBITDA)	**-20,186**	**-18,943**
	Depreciation, amortization, write-downs and impairment losses of property, plant and equipment and intangible assets	-8,920	-4,362
	Profit/loss before net financials (EBIT)	**-29,106**	**-23,305**
8	Financial income	35	443
9	Financial expenses	-2,675	-884
	Profit/loss before tax (EBT)	**-31,746**	**-23,746**
10	Tax on profit/loss for the year	5,438	2,060
	Profit/loss for the year	**-26,308**	**-21,686**
	Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):		
	Exchange differences on translation of foreign operations	946	-522
	Other comprehensive income for the year, net of tax	**946**	**-522**
	Total comprehensive income	**-25,362**	**-22,208**

Consolidated income statement and statement of comprehensive income

Note		2019/20 DKK '000	2018/19 DKK '000
	Profit attributable to:		
	Owners of the parent company	-26,308	-21,686
	Non-controlling interests	0	0
	Total	**-26,308**	**-21,686**
	Total comprehensive income attributable to:		
	Owners of the parent company	-25,362	-22,208
	Non-controlling interests	0	0
	Total	**-25,362**	**-22,208**

Consolidated balance sheet

ASSETS

Note		30/09/2020 DKK '000	30/09/2019 DKK '000
11	Completed development projects	12,624	13,280
11	Acquired rights	1,560	1,312
11	Goodwill	9,728	9,728
12	Other fixtures and fittings, tools and equipment	710	674
12	Right-of-use-assets	4,117	0
10	Deferred tax asset	5,486	1,179
	Deposits	377	431
	Total non-current assets	**34,602**	**26,604**
13	Inventories	1,401	997
14	Trade receivables	23,454	21,447
	Income tax receivable	1,995	2,450
	Other receivables	519	703
	Receivables from owners and management	750	0
	Prepayments	512	221
	Cash	90,954	63,061
	Total current assets	**119,585**	**88,879**
	Total assets	**154,187**	**115,483**

Consolidated balance sheet

EQUITY AND LIABILITIES

Note		30/09/2020 DKK '000	30/09/2019 DKK '000
15	Share capital	1,625	1,409
	Foreign currency translation reserve	211	-735
	Retained earnings	98,630	76,441
	Total equity	**100,466**	**77,115**
16	Payables to other credit institutions	3,172	4,820
	Lease liabilities	2,413	0
	Other Payables	0	284
	Deferred income	1,875	299
	Total non-current liabilities	**7,460**	**5,403**
16	Payables to other credit institutions	1,936	1,810
	Lease liabilities	1,885	0
	Prepayments received from customers	1,728	1,054
	Trade payables	6,003	12,233
	Other payables	24,019	13,027
	Deferred income	10,690	4,841
	Total current liabilities	**46,261**	**32,965**
	Total liabilities	**53,721**	**38,368**
	Total equity and liabilities	**154,187**	**115,483**

Consolidated statement of changes in equity

Amounts in DKK '000	Share capital	Share premium	Retained earnings	Foreign currency translation reserve	Total equity
Statement of changes in equity 01/10/2018 – 30/09/2019					
Equity as at 01/10/2018	1,409	0	98,127	-213	99,323
Net loss for the year	0	0	-21,686	0	-21,686
Other comprehensive income	0	0	0	-522	-522
Comprehensive income	1,409	0	76,441	-735	77,115
Transactions with owners	0	0	0	0	0
Equity as at 30/09/2019	1,409	0	76,441	-735	77,115
Statement of changes in equity 01/10/2019 – 30/09/2020					
Equity as at 01/10/2019	1,409	0	76,441	-735	77,115
Net loss for the year	0	0	-26,308	0	-26,308
Other comprehensive income	0	0	0	946	946
Comprehensive income	1,409	0	50,133	211	51,753
Capital increase	216	49,783	0	0	49,999
Purchase of treasury shares	0	0	-2,832	0	-2,832
Transfer to/from other reserves	0	-49,783	49,783	0	0
Share-based payment	0	0	1,546	0	1,546
Transactions with owners	216	0	48,497	0	48,713
Equity as at 30/09/2020	1,625	0	98,630	211	100,466

Consolidated cash flow statement

Note		2019/20 DKK '000	2018/19 DKK '000
	Profit/loss before tax	**-31,746**	**-23,746**
20	Adjustment for non-cash items	11,412	3,840
	Financial income, reversed	-35	-443
	Financial expenses, reversed	2,675	884
21	Change in working capital	9,309	7,315
	Cash flows from operating activities before net financials	**-8,385**	**-12,150**
	Financial income received	35	443
	Financial expenses paid	-2,675	-884
	Income tax paid/received	1,586	-789
	Cash flows from operating activities	**-9,439**	**-13,380**
	Purchase of intangible assets	-6,121	-7,110
	Purchase of other fixtures and fittings, tools and equipment	-461	-677
	Deposits paid	54	11
	Cash flows from investing activities	**-6,528**	**-7,776**
	Cash capital increase	49,999	0
	Purchase of treasury shares	-2,832	0
	Repayment of credit institutions	-1,522	-824
	Lease liabilities	-1,785	0
	Cash flows from financing activities	**43,860**	**-824**
	Total cash flows for the year	**27,893**	**-21,980**
	Cash, beginning of year	63,061	85,041
	Cash, end of year	**90,954**	**63,061**

Consolidated notes

1. Accounting policies
2. Significant accounting estimates and assessments
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7. Research and development costs
8. Financial income
9. Financial expenses
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20. Adjustment for non-cash items
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22. Financial risks and financial instruments
23. Related parties
24. Events occurring after the balance sheet date
25. Adoption of the annual report for publication
26. New accounting regulation

1. Accounting policies

Visiopharm A/S is a limited liability company domiciled in Denmark. The consolidated financial statements for 2019/20 have been prepared in accordance with the International Financial Reporting Standards (IFRS) as approved by the EU and additional Danish disclosure requirements for annual reports of class B companies.

Danish kroner (DKK) is the group's presentation currency and the functional currency of the parent company. The consolidated financial statements are presented in Danish kroner (DKK) rounded off to the nearest DKK 1,000.

Change in accounting estimates

The company has changed its accounting estimates in the following areas:

Completed development projects

The method of measuring the indirect costs price of development project have been reassessed in the current financial year.

This change has a negative impact of DKK 2,224k on the net profit or loss for the financial year 01.10.19 - 30.09.20. As at 30.09.20, equity is reduced by DKK 2,224k and the balance sheet total is reduced by DKK 2,224k due to the change in estimate.

New financial reporting requirements

A number of changes to accounting standards are effective from January 1, 2019 and adopted by the EU. Those of relevance to the Group are:

- IFRS 16 Leases

Transition to IFRS 16

IFRS 16 “Leases” sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The cumulative effect of initially applying the Standard has been recognized at October 1, 2019 and comparatives have not been restated. As a result of the change in lease accounting, the group has capitalized its right of use assets. Upon implementation on October 1, 2019, the Group has recognized a liability to make lease payments (i.e. the lease liability) of DKK 6,083 thousand and an asset representing the right to use the underlying asset during the lease term (i.e. the right to use asset) of DKK 6,083 thousand.

The accumulated effect on equity at October 1, 2019 is zero and the accumulated effect on total assets is DKK 6,083 thousand. Further, the group has separately recognized the interest expense on the lease liability with DKK 342 thousand and the depreciation on the right to use the assets with DKK 1,966 thousand instead of cost of operating lease agreements with DKK

1. Accounting policies – continued –

2,127 thousand. Hence, the impact on net result for 2019/20 from adoption of IFRS 16 was DKK 180 thousand.

The Group adopted IFRS 16 "Leases" using the modified retrospective approach. The implementation of IFRS 16 has had the following impact (amounts in DKK '000):

Operating lease commitments at 30 September 2019	6,774
Commitments relating to short-term leases	-401
Effect of discounting	-291
Recogniszed lease liability at initial application 1 October 2019	6,082

Lease liabilities are recognized in a separate line item in the balance sheet. The discounting rate of 4.5% is determined based on the Groups incremental borrowing rate at 1 October 2019.

Consolidated financial statements

The consolidated financial statements comprise Visiopharm A/S (parent company) and the companies (subsidiaries) controlled by the parent company. A company is regarded as controlled by the parent company when the parent company is exposed or entitled to variable returns on its involvement in the company, and has the ability to affect those returns through its power over the company.

The consolidated financial statements are prepared based on the financial statements of Visiopharm A/S and its subsidiaries. The consolidated financial statements are prepared by combining items of a uniform nature calculated in accordance with the group's accounting policies, eliminating intercompany income and expenditure, intercompany balances and dividends as well as gains and losses on transactions between the consolidated companies.

Alternative performance measures (APMs)

The consolidated financial statements refers to certain key performance indicators, which Visiopharm and others use when evaluating the performance of Visiopharm. These are referred to as alternative performance measures (APMs) and are not defined under IFRS. The figures give management and investors important information to enable them to fully analyze the Visiopharm business and trends. The APMs are not meant to replace but to complement the performance measures defined under IFRS. Refer to definitions on page 13.

1. Accounting policies – continued –

Business combinations

Newly acquired or newly founded companies are recognized in the consolidated financial statements as from the time of acquisition and the time of foundation, respectively. The time of acquisition is the time at which control of the company is actually obtained. Divested or discontinued companies are recognized in the consolidated statement of comprehensive income up until the time when control ceases.

When new companies are acquired and the group obtains control of an acquired company, it is recognized in accordance with the acquisition method, according to which the newly acquired company's identifiable assets, liabilities and contingent liabilities are measured at fair value at the date of acquisition.

The acquisition price of a company is the fair value of the price paid for the acquired company. Expenses relating to the acquisition are recognized in the income statement when paid.

Positive differences (goodwill) between the acquisition price of the acquired company on the one hand and the fair value of the assets, liabilities and contingent liabilities acquired on the other are recognized as goodwill and tested for impairment at least once a year.

Figures pertaining to business combinations carried out before 1 October 2016 have not been restated according to the above accounting policies in connection with the transition to presentation of the consolidated financial statements in accordance with IFRS. The carrying amount as at 1 October 2016 of goodwill in connection with business combinations carried out before 1 October 2016 is regarded as the cost of goodwill under IFRS.

Foreign currency translation

On initial recognition, transactions in currencies other than the functional currency of the individual company are recognized at the exchange rate applicable at the transaction date. Receivables, payables and other monetary items denominated in foreign currency not settled at the balance sheet date are translated using the exchange rate applicable at the balance sheet date.

Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment and the balance sheet date, respectively, are recognized in the income statement as net financials. Property, plant and equipment and intangible

1. Accounting policies – continued –

assets, inventories and other non-monetary assets purchased in foreign currency and measured based on historical cost are translated at the exchange rate applicable at the transaction date.

Leases

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

1. Accounting policies – continued –

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets in 'property, plant and equipment' and lease liabilities in a separate line in the statement of financial position.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Under IAS 17
In the comparative period, leases relating to assets where the company has substantially all the risks and benefits incidental to the ownership of the asset (finance leases) are recognized in the balance sheet. On initial recognition, assets held under finance leases and related lease commitments are measured at the lower of the fair value of the leased asset and the present value of future lease payments. Subsequently, assets held under finance leases are treated like other similar assets.

Lease commitments relating to assets held under finance leases are recognized in the balance sheet as payables. Subsequent to initial recognition, lease commitments are measured at amortized cost according to which the interest element of the lease payment is recognized in the income statement over the lease term.

Lease payments relating to operating leases are recognized in the income statement on a straight-line basis over the lease term.

Grants

Grants are recognized when the conditions for receipt are met and there is reasonable assurance that the grant will be received.

Grants that are receivable as compensation for expenses are recognized in profit or loss as other operating income in the period in which they become receivable.

1. Accounting policies – continued –

Tax

Tax for the year, consisting of current tax and changes in deferred tax, is recognized in the income statement with the portion attributable to tax on the profit or loss for the year, and directly in equity or in other comprehensive income with the portion attributable to amounts recognized directly in equity or in other comprehensive income, respectively.

Current tax payables and receivables are recognized in the balance sheet as tax computed on the basis of the taxable income for the year and taxes paid or refunded.

Current tax for the year is computed based on the tax rules and tax rates applicable at the balance sheet date.

Deferred tax is recognized using the balance sheet liability method on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities, except for deferred tax on temporary differences due to either initial recognition of goodwill or initial recognition of a transaction that is not a business combination, and where the temporary difference ascertained at the time of initial recognition does not affect either the tax results or the taxable income. The deferred tax is calculated based on the planned use of the individual asset or settlement of the individual liability.

Deferred tax is measured applying the tax rules and tax rates expected to be applicable when the deferred tax is expected to crystallise as current tax. Any change in deferred tax as a result of changes in tax rules or rates is recognized in the income statement, unless the deferred tax is attributable to transactions that have previously been recognized directly in equity or in other comprehensive income. In the latter case, the change is recognized directly in equity or in other comprehensive income, respectively.

Deferred tax assets, including the tax value of tax losses allowed for carryforward, are recognized in the balance sheet at the expected realizable value, either through offsetting against deferred tax liabilities or as a net tax asset for offsetting against future positive taxable incomes. An assessment is made on each balance sheet date of whether it is probable that sufficient taxable income will be generated in future to enable utilization of the deferred tax asset.

STATEMENT OF COMPREHENSIVE INCOME

Revenue

Revenue is mainly derived from fees charged for software licenses, software subscription, hardware and service fees. Revenue recognition requires an agreement with the customer

1. Accounting policies – continued –

which creates enforceable rights and obligations between the parties, has commercial substance, and identifies payment terms. In addition, it must be probable that the consideration determined in the contract will be collected.

Revenue is recognized when the customer has obtained control of the licenses, goods or services and has the ability to use and obtain substantially all the benefits from the licenses, goods or services. For multi-element contracts, the basis for revenue recognition is an assessment of the standalone selling prices for the identified performance obligations, including rebates, discounts, allowances, and inherent interest. The total transaction price is allocated to each performance obligation on the basis of the relative stand-alone selling price of each distinct goods or services.

Software licenses
Standard software licenses provide customers with the right to use the software. The customer obtains control of the license when all of the following criteria are met: a binding contract is entered into; the license is delivered; and the customer has the right to use it. License revenue is therefore generally recognized at that point-in-time. When the contract requires customer acceptance of functionality, the revenue recognition will be deferred until the time of acceptance or delivery.

The right to use software license is considered a separate performance obligation when it satisfies the following conditions: can be delivered separately from other services, can be installed by a third party, can be used without upgrades, and is functional without upgrades or support.

Software subscription
Software subscription services include the initial software license, software updates and support fees. The software license and the updates are considered highly interrelated and the promise to grant the license is not distinct within the context of the contract. Performance obligations include: unspecified future upgrades, maintenance, and support. Revenue from software subscription services is recognized on a straight-line basis over the contract period.

Hardware
Revenue from sale of hardware is recognized at the point in time when control of the goods is transferred to the customer, generally on delivery of the equipment at the customer's location.

Services fees
Contractual Research, installation, support, training and other services is recognized when the services have been delivered.

1. Accounting policies – continued –

Costs of raw materials and consumables

Costs of raw materials and consumables comprise raw materials and consumables used for the year as well as any changes in inventories, including any inventory wastage.

Write-downs of inventories of raw materials and consumables are also recognized under raw materials and consumables.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises and bad debts.

Staff costs

Staff expenses comprise wages and salaries as well as social security expenses, pensions for group staff, other staff-related expenses and share-based payment compensation.

Share-based payments

Cash-settled share-based payments
Cash-settled share-based payments of the Group are granted to employees. The last known share price is used to estimate the fair value.

Until the liability is settled, the Group remeasures the fair value of the liability at the end of each reporting period and at the date of settlement. Changes in fair value is recognized in profit or loss for the period.

Equity-settled share-based payments
Equity-settled share-based payments of the Group are share options granted to external consultants, for which an option pricing model is used to estimate the fair value at grant date. That fair value is charged on a straight-line basis as an expense in the consolidated statement of profit or loss over the period that the employee becomes unconditionally entitled to the options (vesting period), with a corresponding increase in equity.

Equity is also increased by the proceeds received, as and when employees choose to exercise their options.

1. Accounting policies – continued –

Net financials

Net financials comprise interest income and expenses as well as realised and unrealised gains and losses on transactions in foreign currency.

Amortization of capital losses and borrowing costs relating to financial liabilities is recognized on an ongoing basis as part of the interest expenses.

BALANCE SHEET

Capitalized development projects

Completed development costs comprise staff expenses and fees for subsuppliers directly attributable to the development projects. Indirect costs is not capitalized. Development projects which are clearly defined and whose technical feasibility and sufficiency of resources have been demonstrated and which the company intends to complete and market are recognized as development projects in the balance sheet if the cost can be determined reliably and there is sufficient certainty that the future earnings will cover the development costs. Recognized development projects are measured at cost less accumulated amortization and impairment losses.

Other development costs are recognized in the income statement under other external expenses or staff expenses.

Once completed, development projects are amortized according to the straight-line method over their estimated useful lives from the time when the asset is ready for use. Development projects are regarded as being ready for use at the time when the new applications/features are released in the software licenses available for sale. The amortization period is usually 5 years. Amortization methods and useful lives are reviewed every year.

Acquired rights

Acquired rights are measured in the balance sheet at cost less accumulated amortization and impairment losses.

Acquired rights are amortized according to the straight-line method over their estimated useful lives. The amortization period is usually 5 years with no residual value. Amortization methods and useful lives are reviewed every year.

1. Accounting policies – continued –

Goodwill

On initial recognition, goodwill is recognized and measured as the difference between the cost of the acquired company and the fair value of the assets, liabilities and contingent liabilities acquired, see the description in the section on business combinations.

On initial recognition, goodwill is allocated to the group activities that generate independent cash flows (cash-generating units). The distribution on cash-generating units follows the management structure and the group's internal financial management.

Goodwill is not amortized, but is tested for impairment at least once a year.

Other fixtures and fittings, tools and equipment

Other fixtures and fittings, tools and equipment are measured in the balance sheet at the lower of cost less accumulated depreciation and recoverable amount.

Cost comprises the acquisition price, costs directly related to the acquisition and costs for preparation of the asset until such time as the asset is ready for use. The depreciation period is usually 3-5 years with no residual value. Depreciation methods, useful lives and residual values are reviewed every year.

Gains and losses on the disposal of other fixtures and fittings, tools and equipment are recognized in the income statement as other operating income or other operating expenses, respectively.

Non-current financial assets

Other receivables recognized under non-current assets comprise deposits and are measured at the lower of accumulated cost and recoverable amount.

Impairment of assets (impairment test)

The carrying amount of other fixtures and fittings, tools and equipment and intangible assets with determinable useful lives are tested for impairment every year. If indications of impairment are found, the recoverable amount of the asset is calculated to determine the need to write down for impairment and the amount of such impairment loss, if relevant.

The recoverable amount of development projects in progress and goodwill are determined every year, regardless of whether any indications of impairment exists.

1. Accounting policies – continued –

If an asset does not produce inflows independently of other assets, the recoverable amount is determined for the smallest cash-generating unit of which the asset forms part.

The higher of fair value less selling costs and value in use is used as the recoverable amount of the asset. The value is use is determined as the present value of the expected net cash flows from use of the asset. If the recoverable amount of the asset is lower than the carrying amount, the carrying amount is written down to the recoverable amount.

In so far as cash-generating units are concerned, the impairment loss is distributed in such a way that goodwill is written down for impairment first, and subsequently any remaining need for impairment is distributed on the other assets in the unit. However, individual assets cannot be written down to a value lower than their fair value less expected selling costs. Impairment losses are recognized in the income statement.

Inventories

Inventories are measured at cost calculated according to the FIFO principle. Inventories are written down to the lower of cost and net realisable value.

The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and the expected development in the selling price.

Trade receivables and other receivables

Receivables that do not contain a significant financing component are measured at the transaction price less provisions for bad debts. Provisions for bad debts are made based on an individual assessment of the receivables concerned.

Prepayments

Prepayments recognized under assets comprise costs incurred in respect of the subsequent financial year. Prepayments are measured at cost.

Cash

Cash includes deposits in bank accounts as well as operating cash.

1. Accounting policies – continued –

Equity

Direct and incremental costs associated with capital increases are accounted for as a reduction in the proceeds from the capital increase and recognized in shareholders' equity.

The translation reserve in the consolidated financial statements comprises foreign-exchange differences arising on translation of financial statements of Group entities from their local foreign currencies to the presentation currency used by the Group (DKK). On the disposal, entirely or partially, of a Group entity, the exchange-rate adjustment is recognized in profit or loss as a portion of the gain/loss on the sale.

Liabilities

Non-current liabilities comprise other credit institutions and other non-current liabilities. Payables to credit institutions are measured at cost at the time of contracting such payables (raising of loans). Subsequently, the liabilities are measured at amortized cost, meaning that the difference between the proceeds from the loan and the repayable amount is recognized in the income statement over the period of the loan as a financial expense according to the effective interest method.

Other financial liabilities comprise bank debt, trade payables, other payables to public authorities and other liabilities. On initial recognition, other financial liabilities are measured at fair value less any transaction costs. Subsequently, the liabilities are measured at amortized cost according to the effective interest method, so that the difference between the proceeds and the nominal value is recognized in the income statement as a financial expense over the period of the loan.

Prepayments received from customers

Prepayments received from customers comprises payments received in respect of income in subsequent financial years. Prepayments received from customers are measured at cost.

Deferred income

Deferred income under liabilities comprises payments received in respect of revenue in subsequent financial years. Deferred income are measured at cost.

1. Accounting policies – continued –

CASH FLOW STATEMENT

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash at the beginning and end of the year. Cash flows from operating activities are presented in accordance with the indirect method and are determined as the operating profit or loss adjusted for non-cash operating items, changes in working capital and paid financial income, financial expenses and income tax.

Cash flows from investing activities comprise payments in connection with the acquisition and sale of companies and financial assets as well as the purchase, development, improvement and sale of property, plant and equipment and intangible assets.

Cash flows from financing activities comprise changes in the parent company's share capital and associated costs as well as the raising and repayment of loans, the repayment of interest-bearing debt, the purchase and sale of treasury shares and the payment of dividends.

Cash flows in currencies other than the functional currency are recognized in the cash flow statement using average exchange rates, unless they deviate significantly from the actual exchange rates at the transaction dates.

Cash and cash equivalents comprise cash less overdraft facilities that are an integrated part of the cash management.

2. Significant accounting estimates and assessments

In connection with the preparation of the consolidated financial statements, the management makes a number of accounting estimates and assessments that affect the recognized values of assets, liabilities, income, expenses and cash flows as well as their presentation.

Accounting estimates reflect the management's best estimates in terms of amounts where the measurement is subject to uncertainty, typically because the estimate is based on assumptions concerning future events. The accounting estimates are based on historical experience and other assumptions deemed relevant, but the actual results may, naturally, deviate from the estimates made. The estimates are regularly reassessed, and the effect of changes is recognized in the consolidated financial statements.

Accounting judgements reflect decisions made by the management as to how the accounting policies are applied in specific situations where the accounting treatment depends on qualitative assessments. Examples could be when the risk passes or how a certain transaction or item is best presented to provide reliable and relevant information.

The following accounting estimates and judgements have had significant impact on the consolidated financial statements for 2019/20:

Amortization of development projects

To reflect the use of the development projects in the form of amortization, the time when the asset is ready for use and the expected useful life must be determined. Reference is made to the presentation in the accounting policies.

Impairment test

For use in connection with the impairment test, the management has distributed property, plant and equipment and intangible assets on cash-generating units or groups of cash-generating units generating inflows which are largely independent of other assets or groups of assets. The distribution of assets on cash-generating units is described in note 11, which also disclose information of key assumptions for the determination of the recoverable amount of the cash-generating units.

	2019/20 DKK '000	2018/19 DKK '000

3. Revenue

Set out below is the disaggregation of the revenue from contract with customers:

	2019/20 DKK '000	2018/19 DKK '000
Type of goods or services		
Sale of software (perpetual licenses – right to use)	40,001	38,170
Subscription software (right to access)	10,415	5,860
Sale of hardware	23,637	39,316
Rendering of services	10,209	4,574
Total	84,262	87,920
Geographical markets		
Nordics	32,795	40,486
UK & Ireland	10,081	11,296
Latin Europe	6,714	4,367
Germany, Austria & Switzerland	4,011	3,719
Americas	28,272	27,039
Rest of the world	2,389	1,013
Total	84,262	87,920
Timing of revenue recognition		
Goods and services transferred at a point in time	72,763	81,587
Goods and services transferred over time	11,499	6,333
Total	84,262	87,920

4. Other operating income

	2019/20 DKK '000	2018/19 DKK '000
Grants	593	0
Total	593	0

	2019/20 DKK '000	2018/19 DKK '000
5. Staff costs		
Wages and salaries	62,856	50,163
Pensions	1,550	964
Other social security costs	3,332	3,444
Other staff costs	2,311	3,918
Total	70,049	58,489
Total staff costs are recognized as follows:		
Staff costs in the income statement	64,732	52,615
Development projects	5,317	5,874
Total	70,049	58,489
Average number of employees during the year	81	73
Compensation for key management personnel of the Group:		
Short-term employee benefits	3,959	3,295
Post-employment benefits	52	50
Share-based payment expense	0	0
Total remuneration for key management employees	4,011	3,345

6. Share-based payments

Partner bonus pool agreement (cash-settled)

On 22 June 2018, the company took over the obligation of a partner bonus pool agreement to employees. The obligation was settled by receiving treasury shares of nominal 33,894 shares.

The employees are granted access to the partner bonus pool arrangement, which entitles them to receive a proportionate share of a total cash bonus of 2,09% of the sales proceeds if the Company is sold. The right to remuneration vested immediately upon granting. The liability for the remuneration is measured, initially and at the end of each reporting period until settled, at fair value.

The estimate of the fair value upon the time where the Company took over the obligation are based on the share price at the cash capital increase on 27 June 2019.

The carrying amount of the liability at 30 September 2020 was DKK 7,835k (2019: DKK 6,813k). The fair value of the partner bonus pool agreement as at 30 September 2020 is based on the share price at the cash capital increase on 1 July 2020.

During 2019/20, the total charge to profit or loss amounted to DKK 1,022k (2018/19: DKK 0k) recognized as staff expenses.

Restricted stock units (equity-settled)
On January 24, 2020, restricted stock units (RSU) was granted to an external consultant. The RSUs will be converted into ordinary shares of Visiopharm A/S free of charge after the end of the vesting period. The RSUs was granted with a monthly vesting of 1/36 from February 24, 2020 until January 24, 2023, provided they remain within the Group's employment.

During 2019/20, the total charge to profit or loss amounted to DKK 1,546k (2018/19: DKK 0k) recognized as other external expenses.

The table below summarizes the number of options that were outstanding, their weighted average exercise price (WAEP) as at September 30, as well as the movements during the period.

	2019/20		2018/19	
	Number	WAEP in DKK	Number	WAEP in DKK
Outstanding at October 1	0	-	0	-
Granted	14,089	0	0	-
Forfeited	0	-	0	-
Exercised	0	-	0	-
Expired	0	-	0	-
Outstanding at September 30	14,089	0	0	-
Exercisable at September 30	0	0	0	-

The weighted average remaining contractual life for the RSUs outstanding as at September 30, 2020 was 2.3 years (September 30, 2019: no outstanding RSU's).

The exercise prices for RSUs outstanding as at September 30, 2020 was DKK 0 (September 30, 2019: no outstanding RSUs).

The weighted average fair value of RSUs granted in 2019/20 was DKK 201,02. No RSUs were granted in 2018/19.

The estimate of the grant date fair value of each RSU is based on the share price at purchase of treasury share on 6 May 2020.

7. Research and development costs

Research and development costs that are not eligible for capitalization have been expensed in the period incurred (in 2019/20, this was DKK 0k (2018/19: DKK 0k)), and they are recognized in other external expenses and staff expenses.

	2019/20 DKK '000	2018/19 DKK '000
8. Financial income		
Other interest income	5	0
Foreign currency translation adjustments	30	443
Total	35	443
9. Financial expenses		
Other interest expenses	744	884
Interest expense on lease liabilities	342	0
Foreign currency translation adjustments	1,589	0
Total	2,675	884

	2019/20 DKK '000	2018/19 DKK '000

10. Tax

	2019/20	2018/19
Tax on profit/loss for the year:		
Current tax	-56	-506
Tax recieved under the tax kredit scheme	1,191	1,418
Change in deferred tax	4,307	1,148
Adjustment of tax in respect of previous years	-4	0
Tax on profit/loss for the year (profit)	5,438	2,060

	2019/20	2018/19
Reconciliation of effective tax rate:		
Tax computed on the loss before tax at a tax rate of 22.0%	6,984	5,224
Tax value of non-deductible expenses	-16	-22
Value adjustment of deferred tax assets	-1,250	-3,197
Other adjustments	-280	55
Effective tax rate (17,1% /8,7%)	5,438	2,060

Deferred tax is made up as follows:

Amounts in DKK ‘000	30/09/2020	30/09/2019
Intangible assets	3,121	3,210
Property, plant and equipment	-105	-44
Liabilities	-935	-469
Tax losses carried forward	-7,567	-3,876
Total deferred tax	-5,486	-1,179
which is distributed as follows:		
Deferred tax assets	-5,486	-1,179
Deferred tax liabilities	0	0
Total	-5,486	-1,179

Tax losses carried forward can be carried forward indefinitely. The Group’s non-capitalized tax assets amounts to DKK 5m (2018/19: DKK 4m).

As at 30 September 2020, the company has recognized a deferred tax asset of DKK 5,486k, which can primarily be attributed to tax losses carried forward. The company expect that sufficient taxable income will be generated within 3-5 years to enable utilization of the deferred tax asset.

Deferred tax has been provided at 22% corresponding to the current tax rate.

11. Intangible assets

Amounts in DKK '000	Completed development projects	Acquired rights	Goodwill	Development Projects in progress	Total
Financial year 2019/20					
Cost as at 01/10/2019	24,402	3,928	9,728	0	38,058
Additions during the year	0	704	0	5,417	6,121
Transferred during the year	5,417	0	0	-5,417	0
Disposals during the year	0	0	0	0	0
Cost as at 30/09/2020	29,819	4,632	9,728	0	44,179
Amortization and impairment losses as at 01/10/2020	-11,122	-2,616	0	0	-13,738
Impairment losses during the year	0	0	0	0	0
Amortization during the year	-6,073	-456	0	0	-6,529
Disposals during the year	0	0	0	0	0
Amortization and impairment losses as at 30/09/2020	-17,195	-3,072	0	0	-20,267
Carrying amount as at 30/09/2020	12,624	1,560	9,728	0	23,912
Financial year 2018/19					
Cost as at 01/10/2018	17,957	3,263	9,728	0	30,948
Additions during the year	0	665	0	6,445	7,110
Transferred during the year	6,445	0	0	-6,445	0
Disposals during the year	0	0	0	0	0
Cost as at 30/09/2019	24,402	3,928	9,728	0	38,058
Amortization and impairment losses as at 01/10/2018	-7,369	-2,270	0	0	-9,639
Impairment losses during the year	0	0	0	0	0
Amortization during the year	-3,753	-346	0	0	-4,099
Disposals during the year	0	0	0	0	0
Amortization and impairment losses as at 30/09/2019	-11,122	-2,616	0	0	-13,738
Carrying amount as at 30/09/2019	13,280	1,312	9,728	0	24,320

Development projects concern the development of image analysis and stereology software to biopharmaceutical companies, hospitals etc.

11. Intangible assets – continued –

Impairment test

Cash-generating units comprising goodwill are tested for impairment at least once a year and more frequently in case of indications of impairment.

The recoverable amount is determined at a calculated value in use based on budgets and prognoses for the coming 5 financial years.

Distribution of intangible assets on cash-generating units:

Amounts in DKK '000	Completed development projects	Acquired rights	Goodwill	Total
30/09/2020				
CGU, Visiopharm LRI AB	0	0	9,518	9,518
CGU, software	12,624	1,560	0	14,184
CGU, other	0	0	210	210
Total	12,624	1,560	9,728	23,912
30/09/2019				
CGU, Visiopharm LRI AB	0	0	9,518	9,518
CGU, software	13,280	1,312	0	14,592
CGU, other	0	0	210	210
Total	13,280	1,312	9,728	24,320

11. Intangible assets – continued –

Key assumptions for the determination of the recoverable amount of the cash-generating unit Visiopharm LRI AB are listed below. Management expectations for the cash-generating unit Visiopharm LRI AB:

	30/09/2020	30/09/2019
Revenue, yearly growth	0%	0%
Gross margin	38,7%	39,1%
Discount rate (pre tax)	10%	10%
Growth rate beyond budget periods	0%	0%

The management has assessed that reasonably probable changes in the key assumptions will not lead to impairment.

12. Property, plant and equipment

Amounts in DKK ’000	Right-of-use assets	Other fixtures and fittings tools and equipment	Total
Cost as at 01/10/2019	0	4,051	4,051
Adoption of IFRS 16	6,083	0	6,083
Additions	0	461	461
Cost as at 30/09/2020	6,083	4,512	10,595
Depreciation and impairment losses as at 01/10/2019	0	-3,377	-3,377
Depreciation	-1,966	-425	-2,391
Depreciation and impairment losses as at 30/09/2020	-1,966	-3,802	-5,768
Carrying amount as at 30/09/2020	4,117	710	4,827
Cost as at 01/10/2018	0	3,374	3,374
Additions during the year	0	677	677
Cost as at 30/09/2019	0	4,051	4,051
Depreciation and impairment losses as at 01/10/2018	0	-3,114	-3,114
Depreciation during the year	0	-263	-263
Depreciation and impairment losses as at 30/09/2019	0	-3,377	-3,377
Carrying amount as at 30/09/2019	0	674	674

Right-of-use assets

The Group leases buildings and IT equipment.

Amounts recognized in profit and loss:

	2019/20 DKK '000
Depreciation expense on right-of-use assets	1,966
Interest expense on lease liabilities	342
Expense relating to short-term leases	140

The total cash outflow for leases amount to DKK 2,266 thousand in 2019/20.

	30/09/2020 DKK '000	30/09/2019 DKK '000

13. Inventories

Raw materials	0	0
Work in progress	0	0
Finished goods	1,401	997
Total	1,401	997

The amount of inventories recognized as an expense during the period amounted to DKK 20,142k (2018/19: DKK 32,064k)

Write down of inventories recognized as an expense during the period amounted to DKK 0k (2018/19: DKK 0k)

	30/09/2020 DKK '000	30/09/2019 DKK '000

14. Trade receivables

Gross receivable	23,671	21,497
Provision for losses	-217	-50
Total	23,454	21,447

The standard credit period on sales is 30 days. Part of trade receivables are overdue, as customers comprise universities, hospitals and major research companies having longer payment procedures. Based on historical experience the group has had no material losses. As of 30 September 2020 DKK 14,989k was overdue (2019: DKK 5,217k).

There is no material difference between the fair value of receivables and their carrying amount.

15. Equity

Share capital

The company's share capital consists of 1,625,252 shares of DKK 1 each (30.09.19: 1,408,965 shares of DKK 1 each). The shares are fully paid in. The shares are not divided into classes, and no shares enjoy special rights at 30/09/20.

Shares issued and fully paid:

	2019/20	2018/19
Shares issued, 01/10	1,408,965	1,408,965
Cash capital increase on 01/07/2020	216,287	0
Shares issued, 30/09	1,625,252	1,408,965

Treasury shares

The group's holding of treasury shares, nominally DKK 47,984, corresponds to 2,95% of the parent company's share capital.

Capital management

The group aims to ensure structural and financial flexibility as well as competitive strength. For that purpose, the group regularly assesses what the appropriate capital structure for the group is.

Dividend

It is proposed that no dividend be paid.

16. Payables to credit institutions

Amounts in DKK '000	Currency	Term to maturity	Interest	Carrying amount	Fair value
Credit institutions	DKK	2,25 years	4,50%	1,853	1,853
Credit institutions	DKK	3,00 years	5,87%	3,255	3,255
Total as at 30/09/2020				5,108	5,108

Methods and assumptions for the determination of fair value

Floating-rate payables to credit institutions are measured at nominal value.

17. Contingent liabilities

Guarantee commitments

The company has provided a guarantee of DKK 4,397k as security for payment for deliveries to customers.

18. Security provided

As security for debt to credit institutions of DKK 5,213k, a company charge of DKK 12,000k has been provided comprising goodwill, intellectual property rights, motor vehicles, other plant, fixtures and fittings, tools and equipment, inventories, trade receivables as well as fuels and other ancillary materials. The total carrying amount of the comprised assets is DKK 31,539k.

19. Operating lease commitments

Until September 30, 2019 (IAS 17)

Until September 30, 2019, operating leases according to IAS 17 was recognized in the income statement on a straight line basis over the lease term.

The group has entered into operating leases in respect of office premises. The leases are based on fixed lease payments, which are index-adjusted once every year. The leases are non-terminable.

	30/09/2019 DKK '000
The total, future minimum lease payments are distributed as follows:	
Within 1 year	2,334
1-5 year(s)	4,440
After 5 years	0
Total	6,774
Operating lease payments recognized in the income statement amount to	2,418

From October 1, 2019 (IFRS 16)

Effective from October 1, 2019 the Group recognizes a right-of-use asset and a lease liability at the lease commencement date. Hence there is no further obligation as of September 30, 2020. Refer to note 12.

	2019/20 DKK '000	2018/19 DKK '000

20. Adjustment for non-cash items

	2019/20 DKK '000	2018/19 DKK '000
Depreciation, amortization, impairment losses and write-downs	8,920	4,362
Other adjustments	2,492	-522
Total	11,412	3,840

21. Change in working capital

	2019/20 DKK '000	2018/19 DKK '000
Change in inventories	-404	-690
Change in receivables	-2,863	-2,850
Change in trade payables	-6,230	3,994
Change in other payables	18,806	6,861
Total	9,309	7,315

22. Financial risks and financial instruments

Risk management policy

The group's financial risks are managed by the Executive Board. The group has not prepared particular policies for the identification and handling of risks. The management of the group's risks is included in the Executive Board's day-to-day monitoring of the group.

Interest rate risk

The group is not subject to material interest rate risks.

Currency risk

Since the Group operates internationally, it is exposed to foreign currency risk as part of its normal industrial and commercial business. In particular, the Group is significantly exposed to USD, GBP and SEK risk due to the large value of sales made in the United States, United Kingdom and Sweden. As of 30 September 2020, the group had no hedging activities.

Financial assets by currency

Financial assets as at 30 September are analysed by currency as follows:

Amounts in DKK '000	Trade receivables	Cash	Total
As at 30/09/2020			
USD	5,599	10,199	15,799
GBP	4,511	1,953	6,463
SEK	1,069	5,597	6,667
As at 30/09/2019			
USD	7,094	1,864	8,958
GBP	5,993	2,554	8,547
SEK	4,867	5,892	10,759

22. Financial risks and financial instruments - continued -

Financial liabilities by currency

The following table analyses the breakdown of liabilities by currency.

Amounts in DKK '000	Trade payables	Other payables	Total
As at 30/09/2020			
USD	95	848	943
GBP	1,000	1,634	2,633
SEK	1,097	1,205	2,302
As at 30/09/2019			
USD	387	592	979
GBP	6,528	714	7,242
SEK	2,204	446	2,650

Sensitivity analysis

The following demonstrates the sensitivity to a reasonably possible change in USD, GBP and SEK exchange rates, with all other variables held constant. The impact on the Group's profit before tax is due to changes in the fair value of monetary assets and liabilities.

A 10% increase / decrease in the exchange rate of the DKK against the USD would cut / increase profits before tax by DKK 1,486k (2018/19: DKK 798k).

A 10% increase / decrease in the exchange rate of the DKK against the GBP would cut / increase profits before tax by DKK 383k (2018/19: DKK 131k).

A 10% increase / decrease in the exchange rate of the DKK against the SEK would cut / increase profits before tax by DKK 436k (2018/19: DKK 811k).

22. Financial risks and financial instruments - continued -

Liquidity risk

The group's liquidity risk covers the risk that the group is not able to meet its liabilities as they fall due.

The maturities of financial liabilities appear from the tables below. All amounts are contractual cash flows, i.e. inclusive of interest.

Amounts in DKK '000	Within 1 year	1-2 year(s)	2-5 years	Over 5 years	Total
As at 30/09/2020					
Other credit institutions	1,936	1,936	1,235	0	5,107
Trade payables	6,003	0	0	0	6,003
Other payables	16,184	0	7,835	0	24,019
Total	24,123	1,936	9,070	0	35,129
As at 30/09/2019					
Other credit institutions	2,106	2,106	3,477	0	7,689
Trade payables	12,233	0	0	0	12,233
Other payables	13,027	284	0	0	13,311
Total	27,366	2,390	3,477	0	33,233

23. Related parties

Ownership

No party exercises control of Visiopharm A/S.

Transactions with related parties

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

Amounts in DKK '000		Amounts owed by related Parties	Purchases from related parties	Amounts owed to related parties
Other related parties:				
Purchase of treasury share	2019/20	0	2,717	0
	2018/19	0	0	0
Services provided				
	2019/20	750	600	21
	2018/19	0	392	60

Services provided

Companies controlled by members of the key management employees has provided other services than management services.

Treasury shares

The company has purchased treasury shares from companies controlled by members of the key management employees.

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made on terms equivalent to those that prevail in arm’s length transactions. Outstanding balances at the year-end are unsecured and interest free and settlement occurs in cash.

Transactions with key management personnel

Remuneration for the management is disclosed in note 5. There were no other transactions with key management employees.

24. Events occurring after the balance sheet date

No important events have occurred after the end of the financial year.

25. Adoption of the annual report for publication

At the board meeting on 26 November 2020, the Board of Directors adopted this annual report for publication. The annual report will be presented to Visiopharm A/S's shareholders for approval at the annual general meeting on 15 December 2020.

26. New accounting regulation

IASB has published a number of new and changed accounting standards and interpretations, which are not mandatory for the preparation of the consolidated financial statements for 2019/20. These standards and interpretations are not expected to have any significant impact on the group.

Parent company income statement

Note		2019/20 DKK '000	2018/19 DKK '000
	Revenue	**39,867**	**32,393**
	Work performed for own account and capitalized	5,318	5,874
	Other operating income	6,756	7,548
	Costs of raw materials and consumables	-9,419	-2,280
	Other external expenses	-15,887	-13,673
	Gross profit	**26,635**	**29,862**
1	Staff costs	-44,188	-36,470
	Profit/loss before depreciation, amortization, writedowns and impairment losses	**-17,553**	**-6,608**
	Depreciation, amortization, impairment losses and writedowns of property, plant and equipment	-6,954	-4,361
	Profit/loss before net financials	**-24,507**	**-10,969**
2	Income from equity investments in group enterprises	-6,468	-14,126
3	Financial income	567	897
	Financial expenses	-2,196	-873
	Profit/loss before tax	**-32,604**	**-25,071**
	Tax on profit or loss for the year	5,459	2,407
	Profit/loss for the year	**-27,145**	**-22,664**

	2019/20	2018/19
Proposed appropriation account		
Retained earnings	-27,145	-22,664
Total	**-27,145**	**-22,664**

Parent company balance sheet

ASSETS

Note		30/09/20 DKK '000	30/09/19 DKK '000
	Completed development projects	12,624	13,280
	Acquired rights	1,560	1,312
	Goodwill	0	0
4	**Total intangible assets**	**14,184**	**14,592**
	Other fixtures and fittings, tools and equipment	710	674
5	**Total property, plant and equipment**	**710**	**674**
6	Equity investments in group enterprises	9,950	10,668
	Deposits	377	367
	Total investments	**10,327**	**11,035**
	Total non-current assets	**25,221**	**26,301**
	Manufactured goods and goods for resale	1,241	0
	Total inventories	**1,241**	**0**
	Trade receivables	12,575	4,854
	Receivables from group enterprises	4,336	9,602
	Deferred tax asset	5,447	1,179
	Income tax receivable	1,192	2,361
	Other receivables	0	676
	Receivables from owners and management	750	0
	Prepayments	512	221
	Total receivables	**24,812**	**18,893**
	Cash	**79,366**	**52,920**
	Total current assets	**105,419**	**71,813**
	Total assets	**130,640**	**98,114**

Parent company balance sheet

EQUITY AND LIABILITIES

Note		30/09/20 DKK'000	30/09/19 DKK'000
	Share capital	1,625	1,409
	Reserve for development costs	9,428	8,713
	Retained earnings	85,693	64,113
	Total equity	**96,746**	**74,235**
7	Payables to other credit institutions	3,172	4,820
7	Other payables	0	284
7	Deferred income	25	226
	Total long-term payables	**3,197**	**5,330**
7	Short-term portion of long-term payables	1,936	1,810
	Prepayments received from customers	1,728	209
	Trade payables	3,825	3,245
	Other payables	19,834	11,189
	Deferred income	3,374	2,096
	Total short-term payables	**30,697**	**18,549**
	Total payables	**33,894**	**23,879**
	Total equity and liabilities	**130,640**	**98,114**

8 Contingent liabilities
9 Charges and security

Parent company statement of changes in equity

Figures in DKK '000	Share capital	Reserve for net revaluation according to the equity method	Reserve for develop-ment costs	Retained earnings
Statement of changes in equity for 01/10/18 – 30/09/19				
Equity as at pr. 01/10/18	1,409	0	5,577	90,435
Foreign currency translation adjustment of foreign enterprises	0	0	0	-522
Transfers to/from other reserves	0	0	3,136	-3,136
Net profit/loss for the year	0	0	0	-22,664
Equity as at 30/09/19	1,409	0	8,713	64,113
Statement of changes in equity for 01/10/19 – 30/09/20				
Equity as at pr. 01/10/19	1,409	0	8,713	64,113
Foreign currency translation adjustment of foreign enterprises	0	0	0	945
Capital increase	216	0	0	49,783
Purchase of treasury shares	0	0	0	-2,834
Transfers to/from other reserves	0	0	715	-715
Share-based payments	0	0	0	1,546
Net profit/loss for the year	0	0	0	-27,145
Equity as at 30/09/20	1,625	0	9,428	85,693

	2019/20 DKK '000	2018/19 DKK '000

1. Staff costs

	2019/20 DKK '000	2018/19 DKK '000
Wages and salaries	41,305	32,076
Pensions	755	600
Other social security costs	278	322
Other staff costs	1,850	3,472
Total	44,188	36,470
Average number of employees during the year	55	49

2. Income from equity investments in group enterprises

	2019/20 DKK '000	2018/19 DKK '000
Share of profit or loss of group enterprises	-5,490	-13,148
Amortization of goodwill	-978	-978
Total	-6,468	-14,126

3. Financial income

	2019/20 DKK '000	2018/19 DKK '000
Interest, group enterprises	567	303
Foreign currency translation adjustments	0	594
Total	567	897

4. Intangible assets

Figures in DKK '000	Completed development projects	Acquired rights	Goodwill
Cost pr. 01/10/19	24,402	3,929	840
Additions during the year	5,417	704	0
Cost as at 30/09/20	29,819	4,633	840
Amortization and impairment losses pr. 01/10/19	-11,122	-2,617	-840
Amortization during the year	-6,073	-456	0
Amortization and impairment losses as at 30/09/20	-17,195	-3,073	-840
Carrying amount as at 30/09/20	12,624	1,560	0

Development projects concern the development of image analysis and stereology software to biopharmaceutical companies, hospitals etc.

5. Other fixtures and fittings, tools and equipment

Figures in DKK '000	Other fixtures and fittings, tools and equipment
Cost pr. 01/10/18	4,051
Additions during the year	461
Cost as at 30/09/19	4,512
Depreciation and impairment losses pr. 01/10/18	-3,377
Depreciation during the year	-425
Depreciation and impairment losses as at 30/09/19	-3,802
Carrying amount as at 30/09/19	710

6. Equity investments in group enterprises

Figures in DKK '000	Equity investments in group enterprises
Cost as at 01/10/19	10,050
Additions during the year	0
Cost as at 30/09/20	10,050
Revaluations as at 01/10/19	3,740
Foreign currency translation adjustment of foreign enterprises	67
Net profit/loss from equity investments	193
Revaluations as at 30/09/20	4,000
Depreciation and impairment losses as at 01/10/19	-3,122
Foreign currency translation adjustment of foreign enterprises	878
Amortization of goodwill	-978
Net profit/loss from equity investments	-5,683
Negative equity value impaired in receivables	4,805
Depreciation and impairment losses as at 30/09/20	-4,100
Carrying amount as at 30/09/20	9,950
The item comprises goodwill at 30/09/20 of	5,869

Group enterprises:

Visiopharm Corporation, USA	100%
Visiopharm LRI AB, Sweden	100%
Visiopharm UK Limited, England	100%
Visiopharm GmbH, Germany	100%

7. Longterm payables

Figures in DKK '000	Repayment first year	Total payables at 30/09/20	Total payables at 30/09/19
Payables to other credit institutions	1,936	5,108	6,630
Other payables	0	0	284
Deferred income	0	25	226
Total	1,936	5,133	7,140

8. Contingent liabilities

Lease commitments

The company has concluded operating leases in respect of office premises. The leases are based on fixed lease payments, which are index-adjusted once every year. The leases are non-terminable.

	30/09/2020 DKK '000	30/09/2019 DKK '000
The total, future minimum lease payments are distributed as follows:		
Within 1 year	1,665	1,748
1-5 year(s)	1,258	3,213
After 5 years	0	0
Total	2,923	4,961

Guarantee commitments

The company has provided a guarantee of DKK 4,397k as security for payments for deliveries to customers.

9. Charges and security

As security for debt to credit institutions of DKK 5,213k, a company charge of DKK 12,000k has been provided comprising goodwill, intellectual property rights, motor vehicles, other plant, fixtures and fittings, tools and equipment, inventories and agricultural stock, trade receivables. The total carrying amount of the comprised assets is DKK 31,539k.

10. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (Årsregnskabsloven) for enterprises in reporting class B with application of provisions for a higher reporting class with application of provisions for a higher reporting class.

The accounting policies have been applied consistently with previous years.

Change in accounting estimates

The company has changed its accounting estimates in the following areas:

Completed development projects

The method of measuring the indirect costs price of development project have been reassessed in the current financial year.

This change has a negative impact of DKK 2,224k on the net profit or loss for the financial year 01.10.19 - 30.09.20. As at 30.09.20, equity is reduced by DKK 2,224k and the balance sheet total is reduced by DKK 2,224k due to the change in estimate.

Basis of recognition and measurement

Income is recognized in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortization, impairment losses and write-downs, are also recognized in the income statement.

Assets are recognized in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognized in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

10. Accounting policies – continued –

BUSINESS COMBINATIONS

Newly acquired or newly founded enterprises are recognized as from the date of acquisition and the date of foundation, respectively. The date of acquisition is the date at which control of the enterprise is obtained. Divested or discontinued enterprises are recognized until the date of divestment or discontinuation. The date of discontinuation is the date at which control of the enterprise passes to a third party.

Newly acquired enterprises are recognized in accordance with the acquisition method, according to which the identifiable assets and liabilities of the newly acquired enterprises are measured at fair value at the date of acquisition.

The cost of the equity investments in the acquired enterprises is offset against the proportionate share of the fair value of the subsidiaries' net assets at the date of the establishment of the group relationship.

The goodwill (positive difference) determined at the date of acquisition is recognized under equity investments in subsidiaries in the balance sheet. Goodwill is amortized using the straight-line method based on an individual assessment of the useful life of the asset. The useful life of goodwill has been determined at years in consideration of the expected future net earnings of the enterprise to which goodwill relates. Goodwill from acquired enterprises is adjusted until the end of the year after the year in which the acquisition took place.

Gains or losses on the divestment of subsidiaries are determined as the difference between the divestment consideration and the carrying amount of net assets at the time of sale, including non-amortized goodwill, as well as the expected costs of divestment or discontinuation.

CURRENCY

The annual report is presented in Danish kroner.

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rate applicable at the transaction date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate applicable at the date of payment are recognized in the income statement as a financial item. Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rate applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and at the date at which the receivable or payable arose or was recognized in the latest annual report is recognized in the income statement under financial income or expenses.

10. Accounting policies – continued –

On recognition of foreign subsidiaries which are independent entities, the income statements are recognized at the exchange rates applicable at the transaction date or approximate average exchange rates. The balance sheet items are recognized at the exchange rates applicable at the balance sheet date. Foreign currency translation adjustments arisen at the conversion of equity at the beginning of the year and income statements at the exchange rates applicable at the balance sheet date are recognized directly in equity.

Translation adjustments of intercompany balances with independent foreign subsidiaries measured using the equity method and where the balance is considered to be part of the overall investment, are recognized directly in equity. On the divestment of foreign entities, accumulated exchange differences are recognized in the income statement.

INCOME STATEMENT

Revenue

Income from the sale of goods is recognized in the income statement if delivery has taken place and the risk has passed to the buyer before the end of the financial year and where the selling price can be determined reliably and is expected to be paid. Revenue is measured at fair value and is determined exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

Work performed for own account and capitalized

Work performed for own account and capitalized comprises cost of sales, wages and salaries and other internal expenses incurred during the year and included in the cost of self-constructed or self-produced intangible assets.

Other operating income

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including grants.

10. Accounting policies – continued **–**

Costs of raw materials and consumables

Costs of raw materials and consumables comprise raw materials and consumables used for the year as well as any changes in inventories, including any inventory wastage.

Write-downs of inventories of raw materials and consumables are also recognized under raw materials and consumables to the extent that these do not exceed normal write-downs.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises and bad debts to the extent that these do not exceed normal write-downs.

Staff costs

Staff costs comprise wages and salaries as well as other staff-related costs.

Share-based payments

Cash-settled share-based payments

Cash-settled share-based payments of the Group are granted to employees. The last known share price is used to estimate the fair value.

Until the liability is settled, the company remeasures the fair value of the liability at the end of each reporting period and at the date of settlement. Changes in fair value is recognized in profit or loss for the period.

Equity-settled share-based payments

Equity-settled share-based payments of the company are share options granted to external consultants, for which an option pricing model is used to estimate the fair value at grant date. That fair value is charged on a straight-line basis as an expense in the financial statement of profit or loss over the period that the consultant becomes unconditionally entitled to the options (vesting period), with a corresponding increase in equity. The expense is recognized as an external expense in the financial statements.

10. Accounting policies – continued –

Equity is also increased by the proceeds received, as and when the consultant choose to exercise their options.

For additional description of share-based payments refer to note 6 of the consolidated financial statements.

Depreciation, amortization and impairment losses

The depreciation and amortization of intangible assets and property, plant and equipment aim at systematic depreciation and amortization over the expected useful lives of the assets. Assets are depreciated and amortized according to the straight-line method based on the following expected useful lives and residual values:

	Useful Lives, Years	Residual Value, Per cent
Completed development projects	5	0
Acquired rights	5	0
Goodwill	10	0
Other fixtures and fittings, tools and equipment	3-5	0

Goodwill is amortized over 10 years. The useful life has been determined in consideration of the expected future net earnings of the enterprise or activity to which the goodwill relates.

The basis of depreciation and amortization is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation and amortization is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Intangible assets and property, plant and equipment are impaired in accordance with the accounting policies referred to in the ‘Impairment losses on fixed and intangible assets’ section.

Income from equity investments in group enterprises

For equity investments in subsidiaries, measured using the equity method, the share of the enterprises’ profit or loss is recognized in the income statement after elimination of unrealised intercompany profits and losses and less any goodwill amortization and impairment losses.

Income from equity investments in subsidiaries also comprises gains and losses on the sale of equity investments.

10. Accounting policies – continued –

Other net financials

Interest income and interest expenses, foreign exchange gains and losses on transactions denominated in foreign currencies etc. are recognized in other net financials.

Tax on profit/loss for the year

The current and deferred tax for the year is recognized in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognized directly in equity.

BALANCE SHEET

Intangible assets

Completed development projects

Development projects are recognized in the balance sheet where the project aims at developing a specific product or a specific process, intended to be produced or used, respectively, by the company in its production process. On initial recognition, development projects are measured at cost. Cost comprises the purchase price plus expenses resulting directly from the purchase, including wages and salaries directly or indirectly attributable to the development projects until the asset is ready for use. Interest on loans arranged to finance development projects in the development period is not included in the cost. Other development projects and development costs are recognized in the income statement in the year in which they are incurred.

Development projects are subsequently measured in the balance sheet at cost less accumulated amortization and impairment losses.

Completed development projects are amortized using the straight-line method based on useful lives, which are stated in the ‘Depreciation, amortization and impairment losses’ section.

Acquired rights

Aquired rights are measured in the balance sheet at cost less accumulated amortization and impairment losses.

Acquired rights are amortized using the straight-line method based on useful lives, which are stated in the ‘Depreciation, amortization and impairment losses’ section.

10. Accounting policies – continued –

Goodwill

Goodwill is measured in the balance sheet at cost less accumulated amortization and impairment losses.

Goodwill is amortized using the straight-line method based on useful lives, which are stated in the 'Depreciation, amortization and impairment losses' section.

Gains and losses on the disposal of intangible assets

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal.

Other fixtures and fittings, tools and equipment

Other fixtures and fittings, tools and equipment comprise other fixtures and fittings, tools and equipment.

Other fixtures and fittings, tools and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. Interest on loans arranged to finance production is not included in the cost.

Other fixtures and fittings, tools and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation, amortization and impairment losses' section.

Gains and losses on the disposal of other fixtures and fittings, tools and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

Equity investments in group enterprises

Equity investments in subsidiaries are recognized and measured according to the equity method, meaning that these equity investments are measured at the proportionate share of the enterprises' equity value, determined according to the accounting policies of the parent, adjusted for the remaining value of positive or negative goodwill and gains and losses on transactions with the enterprises in question.

10. Accounting policies – continued –

Equity investments in subsidiaries with a negative carrying amount are measured at DKK 0. Receivables that are considered part of the combined investment in the enterprises in question are impaired by any remaining negative equity value. Other receivables from such enterprises are impaired to the extent that such receivables are considered uncollectible. Provisions to cover the remaining negative equity value are recognized only to the extent that the company has a legal or constructive obligation to cover the liabilities of the enterprise in question.

Accounting policies for the acquisition of new enterprises are stated in the 'Business combinations' section.

Impairment losses on assets

The carrying amount of fixed and intangible assets which are not measured at fair value is assessed annually for indications of impairment over and above what is reflected in depreciation and amortization.

If the company's realized return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost calculated according to the FIFO principle. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

10. Accounting policies – continued –

The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and the expected development in the selling price.

Receivables

Receivables are measured at amortized cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

Deposits recognized under assets comprise deposits paid to the lessor under leases entered into by the company.

Work in progress for third parties is measured at the selling price of the work performed less on account invoicing made for each piece of work in progress.

The selling price is measured according to the stage of completion at the balance sheet date and total expected income from the work in progress. The degree of completion for each piece of work in progress is normally calculated as the ration between the resources spent and the total budgeted resource consumption. For some work in progress where the resource consumption cannot be used as a basis, the ratio between completed subactivities and the combined subactivities for the individual piece of work in progress is used instead.

When the selling price of a work in progress cannot be determined reliably, the selling price is measured at the lower of costs incurred and net realisable value.

The individual piece of work in progress is recognized under receivables or payables in the balance sheet depending on whether the net value of the selling price less prepayments received is positive or negative.

When it is likely that the total costs of the individual piece of work in progress will exceed total sales income, the total expected loss is recognized as a provision.

Prepayments

Prepayments recognized under assets comprise costs incurred in respect of subsequent financial years.

10. Accounting policies – continued –

Cash

Cash includes deposits in bank accounts as well as operating cash.

Equity

The net revaluation of equity investment in subsidiaries is recognized in the net revaluation reserve in equity according to the equity method to the extent that the carrying amount exceeds the cost, Dividends from subsidiaries which are expected to be adopted before adoption of the annual report for Visiopharm A/S are not tied up in the revaluation reserve.

An amount equivalent to internally generated development costs in the balance sheet is recognized in equity under reserve for development costs. The reserve is measured less deferred tax and reduced by amortization and impairment losses on the asset. If impairment losses on development costs are subsequently reversed, the reserve will be restored with a corresponding amount. The reserve is dissolved when the development costs are no longer associated with the operations of the enterprise, and the remaining amount will be transferred to retained earnings. In accordance with act no. 738 amending the Danish Financial Statements Act of 1 June 2015, development costs will initially be recognized in the reserve, with initial recognition in the balance sheet from 1 January 2016.

Acquisition costs and consideration for treasury shares as well as dividends therefrom are recognized directly in equity under retained earnings.

Current and deferred tax

Current tax payable and receivable is recognized in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

Deferred tax liabilities and tax assets are recognized on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognized on temporary differences relating to goodwill which is non-amortizable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognized, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

10. Accounting policies – continued –

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

Payables

Long-term payables are measured at cost at the time of contracting such liabilities (raising of the loan). The payables are subsequently measured at amortized cost where capital losses and loan expenses are recognized in the income statement as a financial expense over the term of the payable on the basis of the calculated effective interest rate in force at the time of contracting the liability.

Short-term payables are measured at amortized cost, normally corresponding to the nominal value of such payables.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to the time and date of delivery of the agreed product or completion of the agreed service.

Deferred income

Deferred income under liabilities comprises payments received in respect of income in subsequent financial years.