
Sandoz A/S

Edvard Thomsens Vej 14,1, DK-2300 København S

Annual Report for 1 January - 31 December 2021

CVR No 27 74 45 32

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
23/6 2022

René Kristoffersen
Chairman of the General
Meeting

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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Sandoz A/S for the financial year 1 January - 31 December 2021.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2021 of the Company and of the results of the Company operations for 2021.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

We recommend that the Annual Report be adopted at the Annual General Meeting.

København, 23 June 2022

Executive Board

Carsten Gleerup

Board of Directors

Rebecca Guntern
Chairman

Carsten Gleerup

Adri Simamora

Independent Auditor's Report

To the Shareholder of Sandoz A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2021 and of the results of the Company's operations for the financial year 1 January - 31 December 2021 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Sandoz A/S for the financial year 1 January - 31 December 2021, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether Management's Review is materially inconsistent with the Financial Statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Independent Auditor's Report

Management's responsibilities for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the Financial Statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

Independent Auditor's Report

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hellerup, 23 June 2022

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Martin Lunden

statsautoriseret revisor

mne32209

Company Information

The Company

Sandoz A/S
Edvard Thomsens Vej 14,1
DK-2300 København S

Telephone: + 45 63 95 10 00

Website: www.sandoz.dk

CVR No: 27 74 45 32

Financial period: 1 January - 31 December

Municipality of reg. office: København

Board of Directors

Rebecca Guntern, Chairman
Carsten Glerup
Adri Simamora

Executive Board

Carsten Glerup

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Lawyers

Horten Advokatpartnerselskab
Philip Heymans Allé 7
DK - 2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2021 TDKK	2020 TDKK	2019 TDKK	2018 TDKK	2017 TDKK
Key figures					
Profit/loss					
Revenue	2.011.917	2.130.514	1.842.299	1.533.108	1.487.193
Gross profit/loss	219.994	199.433	183.886	230.962	215.320
Operating profit/loss	75.574	68.941	25.575	77.993	29.721
Net financials	758	-1.528	-3.057	-679	-2.918
Net profit/loss for the year	58.023	89.423	-120.957	60.822	5.158
Balance sheet					
Balance sheet total	1.015.689	1.230.701	923.529	747.050	864.705
Equity	418.136	360.113	270.690	391.648	530.826
Investment in property, plant and equipment	17	147	355	1.058	378
Number of employees	104	100	108	114	113
Ratios					
Gross margin	10,9%	9,4%	10,0%	15,1%	14,5%
Profit margin	3,8%	3,2%	1,4%	5,1%	2,0%
Return on assets	7,4%	5,6%	2,8%	10,4%	3,4%
Solvency ratio	41,2%	29,3%	29,3%	52,4%	61,4%

In connection with changes to accounting policies, the comparative figures back to 2017 have not been restated. See the description under accounting policies.

Management's Review

Key activities

Sandoz A/S undertakes registration of generic pharmaceutical substances and sale and distribution of these in the Danish and Nordic markets.

A major part of the product range is manufactured and delivered by companies within the Novartis Group, of which Sandoz A/S constitutes a fully owned but separate legal entity.

Development in the year

The income statement of the Company for 2021 shows a profit of TDKK 58,023, and at 31 December 2021 the balance sheet of the Company shows equity of TDKK 418,136.

The development in revenue for the year has been positively affected due to new product launches. This development met the company's expectation for 2021

The expected development

The competition is expected to stay intense with continuously declining prices as one of the most significant market characteristics.

Sales for 2022 are expected to grow positively. The Company will continuously explore new opportunities to add appropriate activities and launches. The company also expect the profit before tax to grow positively and the profitability level before tax will be within the same range as 2021

Capital resources

The Company's balance sheet and capital structure are subject to continuously assessment together with the majority shareholder with a view to ensuring that the Company has adequate capital and funding.

Operating risks and financial risks

Foreign exchange risks

The Group's activities abroad imply that results, cash flows and equity are affected by the exchange and interest rate movements for a number of currencies.

The most significant effect is derived from exchange rate movements. The Company's sales are invoiced primarily in DKK, EUR, SEK and NOK. The net exposure relating to the above primary currencies is not hedged as the currencies are not considered highly fluctuating.

Interest rate risks

Interest risk primarily relates to interest earning net payables to group enterprises. The debt earns interest at a floating rate. Interest risks are not hedged.

Management's Review

Credit risks

Credit risk related to cash is handled by continuously assessing existing and new costumers' default risk.

Basis of earnings

Research and development

There are no local reseach & development activities in the Company. All development activities are carried out by other entities within the Novartis Group.

External environment

Efforts are made continuously to reduce the impact of the operations on the environment, and the Parent Company has introduced an environmental policy which places the Group under an obligation to demonstrate environmental propriety and to continuously work for environmental improvements. The Company does not have production in the Nordics.

Intellectual capital resources

It is of great importance that the employees have a profound insight in the handling of products and equipment in connection with both packaging, distribution and marketing, including extensive knowledge about chemical processes and the effect of the Group's pharmaceuticals. This requires a high competency level in general, which is ensured through continuous development of the individual employee.

Statutory statement of corporate social responsibility

The policies of the Novartis Group on social responsibility apply to the Company. We refer to the Group's website (<https://www.novartis.com/our-company/corporate-responsibility/corporate-responsibility-reporting-and-disclosure/novartis-society-report>) for further information.

Novartis AG is a member of the UN Global Compact and our progress report may be obtained at: <https://www.unglobalcompact.org/what-is-gc/participants>

Management's Review

Data ethics

Sandoz A/S adhere to internal rules and principles for use of data described in corporate guidelines of the Novartis Group but will consider for the future to apply their own guidelines for data ethics policy.

At Novartis, and as reflected in the Code of Ethics, we are committed to the responsible use of Personal Information in our business processes and the setting of the appropriate standards to achieve this purpose.

In relation to the use of Artificial intelligence (AI) which are an increasing factor to drive automation which can help to improve the speed and accuracy of diagnosis, drug development etc. and can help to improve patients' lives and optimize the healthcare ecosystem. Novartis will ensure that the use of AI systems has a clear purpose and are used in a transparent and responsible way.

By adhering to the principles and using data ethically Sandoz A/S maintain trust with stakeholders including associates, patients, health care professionals and society and this ensures continued access to data needed for innovation and operation.

Decisions regarding the use of data are taken by Novartis Group and all employees are mandatory trained in Code of Ethics where Data ethical principles are introduced, and this ensures that all employees are aware of the ethical dilemmas in regard to the use of IT.

More information can be found on Novartis global websites for Code of Ethics https://www.novartis.com/sites/novartis_com/files/code-of-ethics-english.pdf and Data Privacy Policy https://www.novartis.com/sites/novartis_com/files/novartis-data-privacy-principles.pdf

Statement on gender composition

Sandoz A/S must according to the Danish financial statements Act account for the share of the underrepresented gender in the board of directors and general management.

Target for the board of directors

Sandoz A/S will strive towards an equal gender distribution in the board of directors and thus have a target to have 25 % women in the board of directors by 2021. At the end of 2021 the board is constituted of 1 man and 2 women.

Policy for increase of the underrepresented gender in general management

Sandoz A/S believes in diversity among employees, including equal distribution of gender will contribute to a positive work environment and enhances the Company's development and competitiveness. Sandoz A/S therefore has a policy to strive for gender equality in general management.

When relevant and to the extent possible suited candidates of the underrepresented gender will be proposed to management roles to achieve the target. As part of the Novartis Group, Sandoz A/S continuously develop talents across gender. It is expected to have an improved equal gender distribution in management over time.

Management's Review

By the end of 2021 the distribution was 33 % men and 67 % women in the management team.

Subsequent events

No further events ,aterially affecting the assessment og the Annual Report have occurred after the balance sheet date.

Income Statement 1 January - 31 December

	<u>Note</u>	<u>2021</u> TDKK	<u>2020</u> TDKK
Revenue	2	2.011.917	2.130.514
Cost of sales		-1.632.119	-1.762.601
Other external expenses		-159.804	-168.480
Gross profit/loss		219.994	199.433
Staff expenses	3	-142.254	-128.757
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-2.166	-1.735
Profit/loss before financial income and expenses	8	75.574	68.941
Financial income	5	7.989	8.771
Financial expenses	6	-7.231	-10.299
Profit/loss before tax		76.332	67.413
Tax on profit/loss for the year	7	-18.309	22.010
Net profit/loss for the year		58.023	89.423

Balance Sheet 31 December

Assets

	Note	2021 TDKK	2020 TDKK
Rights		4.122	5.551
Goodwill		0	0
Intangible assets	9	4.122	5.551
Other fixtures, fittings, tools and equipment		832	1.458
Leasehold improvements		118	212
Property, plant and equipment	10	950	1.670
Other receivables		1.625	1.794
Fixed asset investments	11	1.625	1.794
Fixed assets		6.697	9.015
Inventories		480.050	646.738
Trade receivables		484.955	443.575
Receivables from group enterprises		39.649	116.852
Other receivables		1.540	1.132
Deferred tax asset	12	1.402	12.431
Prepayments		1.396	958
Receivables		528.942	574.948
Currents assets		1.008.992	1.221.686
Assets		1.015.689	1.230.701

Balance Sheet 31 December

Liabilities and equity

	Note	2021 TDKK	2020 TDKK
Share capital	13	12.000	12.000
Retained earnings		406.136	348.113
Equity		418.136	360.113
Other provisions	14	228.982	273.418
Provisions		228.982	273.418
Other payables		9.269	9.105
Long-term debt	16	9.269	9.105
Trade payables		97.271	126.514
Payables to group enterprises		196.397	282.560
Corporation tax		17.482	126.116
Other payables	16	48.152	52.875
Short-term debt		359.302	588.065
Debt		368.571	597.170
Liabilities and equity		1.015.689	1.230.701
Subsequent events	1		
Distribution of profit	15		
Contingent assets, liabilities and other financial obligations	17		
Related parties	18		
Accounting Policies	19		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 January	12.000	348.113	360.113
Net profit/loss for the year	0	58.023	58.023
Equity at 31 December	12.000	406.136	418.136

Notes to the Financial Statements

1 Subsequent events

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

	<u>2021</u> TDKK	<u>2020</u> TDKK
2 Revenue		
Geographical segments		
Revenue, Denmark	545.097	605.050
Revenue, Nordics	<u>1.466.820</u>	<u>1.525.464</u>
	<u>2.011.917</u>	<u>2.130.514</u>
Business segments		
Retail	1.330.885	1.505.551
Biopharmaceuticals	692.098	624.963
	<u>-11.066</u>	<u>0</u>
	<u>2.011.917</u>	<u>2.130.514</u>

Notes to the Financial Statements

	2021	2020
	TDKK	TDKK
3 Staff expenses		
Wages and salaries	90.106	83.095
Pensions	7.163	6.846
Remunerations other group companies	44.084	38.059
Other social security expenses	901	757
	142.254	128.757
Average number of employees	104	100

A number of the Company's employees participate in a share based incentive program of the ultimate parent company. The employees are granted a number of performance share units (PSUs) every year, based on their annual base salary and target incentive. PSUs have a vesting period of three years. The total estimated value of granted PSUs granted to all employees in the year amounts to DKK 1.934k (2020: DKK 1.634k). The payout range of granted PSUs are dependent on the Group's results in terms of financial targets, innovation and total shareholders' return, compared to the Global healthcare peer group.

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

Amortisation of intangible assets	1.428	845
Depreciation of property, plant and equipment	738	834
Gain and loss on disposal	0	56
	2.166	1.735
Which is specified as follows:		
Product rights	1.428	845
Other fixtures and fittings, tools and equipment	643	716
Leasehold improvements	95	118
Loss/(profit) on sale of property, plant and equipment	0	56
	2.166	1.735

Notes to the Financial Statements

	2021 <u>TDKK</u>	2020 <u>TDKK</u>
5 Financial income		
Interest received from group enterprises	66	54
Exchange adjustments, income	<u>7.923</u>	<u>8.717</u>
	<u>7.989</u>	<u>8.771</u>
6 Financial expenses		
Interest paid to group enterprises	1.019	621
Other financial expenses	5	189
Exchange adjustments, expenses	<u>6.207</u>	<u>9.489</u>
	<u>7.231</u>	<u>10.299</u>
7 Tax on profit/loss for the year		
Current tax for the year	17.482	25.778
Deferred tax for the year	-474	-9.870
Adjustment of tax concerning previous years	-10.201	-37.242
Adjustment of deferred tax concerning previous years	<u>11.502</u>	<u>-676</u>
	<u>18.309</u>	<u>-22.010</u>
Tax on profit/loss for the year is calculated as follows:		
Calculated 22% / % tax on profit/loss for the year before tax	16.793	14.831
Tax effect of:		
Tax on non-deductible expenses and non-taxable income	979	4.895
Adjustment of tax concerning previous years	-10.201	0
Adjustment of tax concerning previous years, concerning corporate tax case for the years 2006-2011	0	-37.242
Temporary differences	-764	-3.818
Adjustment of deferred tax concerning previous years	<u>11.502</u>	<u>-676</u>
	<u>18.309</u>	<u>-22.010</u>

Notes to the Financial Statements

	2021 <u>TDKK</u>	2020 <u>TDKK</u>
8 Special items		
Adjustment of tax concerning previous years, concerning corporate tax case for the years 2006-2011	0	-37.242
	<u>0</u>	<u>-37.242</u>
9 Intangible assets		
	Rights <u>TDKK</u>	Goodwill <u>TDKK</u>
Cost at 1 January	26.816	913.610
Cost at 31 December	26.816	913.610
Impairment losses and amortisation at 1 January	21.266	913.610
Depreciation for the year	1.428	0
Impairment losses and amortisation at 31 December	22.694	913.610
Carrying amount at 31 December	<u>4.122</u>	<u>0</u>
Amortised over	<u>10 years</u>	<u>16 years</u>
10 Property, plant and equipment		
	Other fixtures, fittings, tools and equipment <u>TDKK</u>	Leasehold improvements <u>TDKK</u>
Cost at 1 January	3.656	1.193
Additions for the year	17	0
Disposals for the year	-300	0
Cost at 31 December	3.373	1.193
Impairment losses and depreciation at 1 January	2.199	980
Depreciation for the year	642	95
Impairment and depreciation of sold assets for the year	-300	0
Impairment losses and depreciation at 31 December	2.541	1.075
Carrying amount at 31 December	<u>832</u>	<u>118</u>
Depreciated over	<u>3-10 years</u>	<u>10 years</u>

Notes to the Financial Statements

11 Fixed asset investments

	Other receiv- ables <u>TDKK</u>
Cost at 1 January	1.795
Disposals for the year	<u>-170</u>
Cost at 31 December	<u>1.625</u>
Carrying amount at 31 December	<u>1.625</u>

12 Deferred tax asset

	<u>2021</u> TDKK	<u>2020</u> TDKK
Deferred tax asset at 1 January	12.431	2.561
Amounts recognised in the income statement for the year	474	9.870
Adjustment of deferred tax concerning previous years	<u>-11.503</u>	<u>0</u>
Deferred tax asset at 31 December	<u>1.402</u>	<u>12.431</u>

13 Equity

The share capital consists of 12,000 shares of a nominal value of TDKK 1,000. No shares carry any special rights.

14 Other provisions

Other provisions	<u>228.982</u>	<u>273.418</u>
	<u>228.982</u>	<u>273.418</u>

The provisions are expected to mature as follows:

Within 1 year	<u>228.982</u>	<u>273.418</u>
	<u>228.982</u>	<u>273.418</u>

Other provisions consist of provisions to chargebacks, returns, price changes and other deductions.

Notes to the Financial Statements

	<u>2021</u> TDKK	<u>2020</u> TDKK
15 Distribution of profit		
Retained earnings	58.023	89.423
	<u>58.023</u>	<u>89.423</u>

16 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

Other payables

After 5 years	9.269	9.105
Long-term part	9.269	9.105
Other short-term payables	48.152	52.875
	<u>57.421</u>	<u>61.980</u>

Notes to the Financial Statements

	2021 TDKK	2020 TDKK
17 Contingent assets, liabilities and other financial obligations		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	3.055	3.299
Between 1 and 5 years	379	849
	3.434	4.148

Other contingent liabilities

The Company is jointly taxed with its Danish Parent Company. The Company is unlimited, jointly and severally liable together with the other companies for Danish corporation taxes and withholding taxes on dividend, interest and royalties within the group of jointly taxed companies.

Pending litigation

As a consequence of the Group doing business in generic drugs, the Group is currently party to enforcement proceedings and other lawsuits in relation to the right to produce and distribute specific drugs.

The cases to which the Group is party are expected to be pending for several years. Management considers these cases currently and whether any related obligations are to be recognised in the Financial Statements. In Management's opinion, the outcome of these cases will not have any material effect on the financial position of the Group.

Notes to the Financial Statements

18 Related parties

	<u>Basis</u>
Controlling interest	
Novartis Healthcare A/S - Copenhagen, Denmark	The Company's direct Parent Company
Novartis AG - Basel, Switzerland	The Company's ultimate Parent Company

Transactions

Sandoz A/S' related parties include companies in the Novartis Group.

There have been no transactions with related parties, that is not made on an arms length basis.

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company of the largest and smallest group:

<u>Name</u>	<u>Place of registered office</u>
Novartis AG	Lichtstrasse 35, 4056 Basel, Switzerland

The Group Annual Report of Novartis AG may be obtained at the address above.

Notes to the Financial Statements

19 Accounting Policies

The Annual Report of Sandoz A/S for 2021 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2021 are presented in TDKK.

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

In accordance with section 96 (3) of the Danish Financial Statements Act fee to auditor appointed at the general meeting is disclosed in the Group Annual report.

Recognition and measurement

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

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

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

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

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Notes to the Financial Statements

19 Accounting Policies (continued)

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

Revenue

Information on business segments and geographical segments based on the Company's risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

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

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of various reductions relating to sales.

Cost of sales

Cost of sales comprises direct costs incurred in order to achieve the revenue for the year.

Other external expenses

Other external expenses comprise sale and distribution, premises as well as other office expenses excluding staff expenses and depreciation and amortisation which are disclosed in separate accounting items.

Staff expenses

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

Notes to the Financial Statements

19 Accounting Policies (continued)

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment as well as gains and losses from current replacement of fixed assets.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

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

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

The Company is jointly taxed with Danish Group Companies. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 16 years.

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 10 years.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Notes to the Financial Statements

19 Accounting Policies (continued)

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Rights	10 years
Other fixtures, fittings, tools and equipment	3-10 years
Leasehold improvements	10 years

The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

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

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Fixed asset investments

Fixed asset investments consist of deposit to lease.

Inventories

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

The FEFO method ensures that items with the earliest expiration dates are picked first.

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

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

Notes to the Financial Statements

19 Accounting Policies (continued)

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

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

Dividend

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

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Deferred tax assets and liabilities

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

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

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

Current tax receivables and liabilities

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

Financial debts

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

Notes to the Financial Statements

19 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$