


Azanta A/S
Gearhalsvej 1
DK-2500 Valby
Central Business Registration
No 28108915

Annual report 2016

The Annual General Meeting adopted the annual report on 19.04.2017

Chairman of the General Meeting



Name: Søren Brinkmann

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Entity details

Entity

Azanta A/S
Gearhalsvej 1
DK-2500 Valby

Central Business Registration No: 28108915

Registered in: Valby

Financial year: 01.01.2016 - 31.12.2016

Board of Directors

David Carl Christian von Kauffmann, Chairman

Per Gullestrup

Jens Munch-Hansen

Bo Jesper Hansen

Executive Board

Wolfgang Amann

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Weidekampsgade 6

Postboks 1600

0900 København C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Azanta A/S for the financial year 01.01.2016 - 31.12.2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2016 and of the results of its operations for the financial year 01.01.2016 - 31.12.2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 22.03.2017

Executive Board



Wolfgang Amann

Board of Directors



David Carl Christian von
Kauffmann
Chairman



Per Gullestrup



Jens Munch-Hansen



Bo Jesper Hansen

Independent auditor's report

To the shareholders of Azanta A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of Azanta A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2016, and of the results of their operations for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

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

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

Management is responsible for the preparation of consolidated financial statements and parent 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 consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity 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 parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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

Independent auditor's report

reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent 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 skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 22.03.2017

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556


Jens Sejer Pedersen
State Authorised Public Accountant

Management commentary

Primary activities

Azanta A/S ("Azanta") is a privately owned specialty pharma company with a focus on medical treatments in women's health, oncology and addiction medicine. Azanta sells in-licensed and its own medical products in the Nordic countries and develops its own medicinal products. The Company has a pipeline of two late-clinical-stage proprietary products: Angusta® for labour induction, and Nimoral™, a hypoxic radiosensitizer for the treatment of head and neck cancer patients undergoing primary radiotherapy.

Vision

Azanta seeks to be a market leader within certain niche specialty pharma products, employing innovative repositioning and drug formulation strategies, offering patients the best medical treatment solutions.

Development in activities and finances

Azanta experienced solid growth in 2016 resulting in the Company reaching consolidated revenue of DKK 44.6 million, which equates to 43% increase over the 2015 revenue of DKK 31.1 million. The strong revenue growth resulted in the Company turning profitable with a 2016 net profit of DKK 1.7 million compared to a loss in 2015 of DKK 14.3 million. The net profit is after DKK 15.8 million of R&D cost and a R&D tax credit of DKK 4.3 million.

The positive operational development and the net profit result also had a positive impact on the Company's equity which by the end of 2016 amounted to DKK 23.6 million.

The Company's cash balance at the end of 2016 was DKK 30.8 million. The outlook for 2017 is positive and the Company expects to continue to grow its sales. The projected cash flow from sales is planned to fund the continued development of the Company's two lead drug candidates, expand the Company's commercial activity and service the Company's debts.

Development Projects

Angusta®

Angusta® has been developed for the induction of labour and has been available on a named patient / compassionate use program in Denmark, Norway and Finland since 2013. By end of 2016 more than 38,000 women had benefitted from Angusta®.

On 25 February 2016 Azanta filed for marketing authorization of Angusta® in the Nordics and the National Approvals were successfully received in first half of March 2017. Marketing approval of Angusta® in other European countries as well as in North America will be pursued in 2017 and beyond.

Nimoral™

Nimoral™, a hypoxic radiosensitizer used in treatment of H&N cancer is in phase III drug development. The registration trial for Nimoral™ will be reviewed under the centralized European registration procedure. It is a randomized pivotal phase III trial with Nimoral™ for the treatment of squamous cell carcinoma of the head and neck. The study is led by EORTC and DAHANCA and sponsored by Azanta. This trial examines Nimoral™ in combination with chemo-radiotherapy as first line therapy for the treatment of H&N cancer. Nimoral™ is available on named patient/compassionate use in Denmark since 2011 and in Norway since 2015.

Management commentary

Restructuring

The inactive company Azanta Ltd was deregistered in 2016. Azanta Pharma AB was merged in 2016 with Azanta AB, and the Group's Swedish activities will going forward be conducted by Azanta AB.

Outlook

In 2017 Azanta will launch Angusta® in the Nordic markets and file for marketing authorization in other European countries. With a solid balance sheet, a strengthened organization and increasing sales in the Nordics the Company expects a continued positive development.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Consolidated income statement for 2016

	<u>Notes</u>	<u>2016 DKK'000</u>	<u>2015 DKK'000</u>
Revenue	1	44.550	31.077
Cost of sales		(8.723)	(9.134)
Other external expenses		(26.997)	(24.989)
Gross profit/loss		8.830	(3.046)
Staff costs	2	(8.102)	(13.211)
Depreciation, amortisation and impairment losses	3	(85)	(12)
Operating profit/loss		643	(16.269)
Other financial income	4	46	995
Other financial expenses	5	(3.247)	(3.917)
Profit/loss before tax		(2.558)	(19.191)
Tax on profit/loss for the year	6	4.283	4.924
Profit/loss for the year		1.725	(14.267)
Proposed distribution of profit/loss			
Retained earnings		1.725	(14.267)
		1.725	(14.267)

Consolidated balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK'000</u>	<u>2015 DKK'000</u>
Other fixtures and fittings, tools and equipment		1.366	655
Property, plant and equipment	7	1.366	655
Deposits		356	0
Other receivables		0	1.321
Fixed asset investments		356	1.321
Fixed assets		1.722	1.976
Raw materials and consumables		3.976	5.396
Inventories		3.976	5.396
Trade receivables		14.348	3.889
Other receivables		14	44
Income tax receivable		4.660	4.968
Prepayments		535	716
Receivables		19.557	9.617
Other investments		31	31
Other investments		31	31
Cash		30.775	38.070
Current assets		54.339	53.114
Assets		56.061	55.090

Consolidated balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK'000</u>	<u>2015 DKK'000</u>
Contributed capital		5.400	5.400
Share premium		0	189.772
Retained earnings		18.237	(173.310)
Equity		<u>23.637</u>	<u>21.862</u>
Subordinate loan capital		13.361	20.529
Non-current liabilities other than provisions	8	<u>13.361</u>	<u>20.529</u>
Current portion of long-term liabilities other than provisions	8	7.736	1.220
Trade payables		2.740	5.373
Other payables		8.587	6.106
Current liabilities other than provisions		<u>19.063</u>	<u>12.699</u>
Liabilities other than provisions		<u>32.424</u>	<u>33.228</u>
Equity and liabilities		<u>56.061</u>	<u>55.090</u>
Unrecognised rental and lease commitments	9		
Mortgages and securities	10		

Consolidated statement of changes in equity for 2016

	Contributed capital DKK'000	Share premium DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	5.400	189.772	(173.310)	21.862
Exchange rate adjustments	0	0	50	50
Other equity postings	0	(189.772)	189.772	0
Profit/loss for the year	0	0	1.725	1.725
Equity end of year	5.400	0	18.237	23.637

Notes to consolidated financial statements

1. Revenue

The Group revenues are primarily derived from the areas of oncology, women's health and addiction medicines sold through the Nordic market.

	2016 DKK'000	2015 DKK'000
2. Staff costs		
Wages and salaries	7.362	11.571
Pension costs	509	1.098
Other social security costs	231	542
	8.102	13.211

Average number of employees	10	12
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	2016 DKK'000	2015 DKK'000
3. Depreciation, amortisation and impairment losses		
Depreciation of property, plant and equipment	85	12
	85	12

	2016 DKK'000	2015 DKK'000
4. Other financial income		
Interest Income	46	995
	46	995

	2016 DKK'000	2015 DKK'000
5. Other financial expenses		
Interest expenses	3.247	3.917
	3.247	3.917

	2016 DKK'000	2015 DKK'000
6. Tax on profit/loss for the year		
Tax on current year taxable income	(4.283)	(4.924)
	(4.283)	(4.924)

Notes to consolidated financial statements

	Other fixtures and fittings, tools and equipment DKK'000		
7. Property, plant and equipment			
Cost beginning of year			1.852
Additions			796
Disposals			(1.197)
Cost end of year			1.451
Depreciation and impairment losses beginning of the year			(1.197)
Impairment losses for the year			(85)
Reversal regarding disposals			1.197
Depreciation and impairment losses end of the year			(85)
Carrying amount end of year			1.366
	Instalments within 12 months 2016 DKK'000	Instalments within 12 months 2015 DKK'000	Instalments beyond 12 months 2016 DKK'000
8. Liabilities other than provisions			
Subordinate loan capital	7.736	1.220	13.361
	7.736	1.220	13.361
9. Unrecognised rental and lease commitments			
The Company has rent payments concerning a contract, which is interminable until 31 May 2023, amounting to DKK 4,241 thousand.			

Notes to consolidated financial statements

10. Mortgages and securities

Azanta A/S and Azanta Danmark A/S have granted Norgine Venture a general floating charge of EUR 3 million on the Company's assets. The charge includes goodwill, rights, operating equipment, inventories and accounts receivable.

In a comfort letter dated 22 June 2016, Azanta A/S has confirmed its full financial support to the subsidiary, Azanta AS, Norway.

In a comfort letter dated 31 December 2016, Azanta A/S has confirmed its full financial support to the subsidiary, Azanta AB, Sweden.

Parent income statement for 2016

	<u>Notes</u>	<u>2016</u> <u>DKK'000</u>	<u>2015</u> <u>DKK'000</u>
Revenue		1.541	0
Cost of sales		(1.227)	(17)
Other external expenses		(13.448)	(14.189)
Gross profit/loss		(13.134)	(14.206)
Staff costs	1	(4.067)	(7.140)
Depreciation, amortisation and impairment losses		(85)	0
Operating profit/loss		(17.286)	(21.346)
Income from investments in group enterprises		17.302	4.051
Other financial income		22	732
Other financial expenses		(2.596)	(2.628)
Profit/loss before tax		(2.558)	(19.191)
Tax on profit/loss for the year		4.283	4.924
Profit/loss for the year		1.725	(14.267)
Proposed distribution of profit/loss			
Retained earnings		1.725	(14.267)
		1.725	(14.267)

Parent balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016 DKK'000</u>	<u>2015 DKK'000</u>
Other fixtures and fittings, tools and equipment		1.366	655
Property, plant and equipment	2	1.366	655
Investments in group enterprises		61.259	43.907
Deposits		332	1.169
Fixed asset investments	3	61.591	45.076
Fixed assets		62.957	45.731
Raw materials and consumables		95	877
Inventories		95	877
Receivables from group enterprises		0	1.559
Other receivables		54	5
Income tax receivable		4.283	4.882
Prepayments		328	506
Receivables		4.665	6.952
Other investments		31	31
Other investments		31	31
Cash		19.785	34.768
Current assets		24.576	42.628
Assets		87.533	88.359

Parent balance sheet at 31.12.2016

	<u>Notes</u>	<u>2016</u> <u>DKK'000</u>	<u>2015</u> <u>DKK'000</u>
Contributed capital		5.400	5.400
Share premium		0	189.772
Retained earnings		18.237	(173.310)
Equity		23.637	21.862
Payables to group enterprises		59.020	60.090
Non-current liabilities other than provisions		59.020	60.090
Trade payables		1.232	3.886
Other payables		3.644	2.521
Current liabilities other than provisions		4.876	6.407
Liabilities other than provisions		63.896	66.497
Equity and liabilities		87.533	88.359
Unrecognised rental and lease commitments	4		
Contingent liabilities	5		
Mortgages and securities	6		

Parent statement of changes in equity for 2016

	Contributed capital DKK'000	Share premium DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	5.400	189.772	(173.310)	21.862
Exchange rate adjustments	0	0	50	50
Other equity postings	0	(189.772)	189.772	0
Profit/loss for the year	0	0	1.725	1.725
Equity end of year	5.400	0	18.237	23.637

In 2012 and 2014, a total of 400,000 and 148,000 warrants respectively were issued to members of the Company's management. Each warrant confers a right to subscribe for 1 share at a subscription price of DKK 18.229 per nominal DKK 0.10 share in the Company. The warrants vest with one third on each of the first, second and third anniversary of the grant and can be exercised for five years after the vesting of each tranche.

In 2014, a total of 171,253 warrants were issued to Norgine Venture (the "Norgine Warrants"). Each warrant confers a right to subscribe for 1 share at a base subscription price of DKK 45.651 per nominal DKK 0.10 share in the Company. The warrants will be exercisable for 10 years from the grant date, in 2014. In the event that an investment round, where shares, warrants, convertible debentures or similar share instruments are subscribed for in the Company, occurs before these Norgine Warrants expire or are exercised, the base subscription price shall be adjusted. The revised base subscription price will be the lowest price paid per share in the last investment round before any exercise or expiry of the Norgine Warrants.

In 2015, a total of 6,000,050 warrants were issued to EEP Co-Investment Limited. Each warrant confers a right to subscribe for 1 share at a subscription price of DKK 1.075 per nominal DKK 0.10 share in the Company. The warrants will be exercisable up until 31 December 2030 or for 5 years after the first trading day following an Initial Public Offering ("IPO") if such an IPO occurs between 23 September 2019 and 23 September 2024.

In 2016, a total of 822,410 warrants were issued to CEO Hanne Damgaard Jensen. Each warrant confers a right to subscribe for 1 share at a subscription price of DKK 1.075 per nominal DKK 0.10 share in the Company. 20% of the warrants will be exercisable 5 April 2017 – 5 April 2027, 20% of the warrants will be exercisable 5 April 2018 – 5 April 2028, 30% of the warrants will be exercisable 5 April 2019 – 5 April 2029 and 30% of the warrants will be exercisable 5 April 2020 – 5 April 2030.

The detailed terms and conditions associated with the respective warrants above are contained in the Company's Articles of Association.

Notes to parent financial statements

	2016	2015
	DKK'000	DKK'000
1. Staff costs		
Wages and salaries	3.677	6.691
Pension costs	372	422
Other social security costs	18	27
	4.067	7.140
Average number of employees	4	5
		Other fixtures and fittings, tools and equipment DKK'000
2. Property, plant and equipment		
Cost beginning of year		1.083
Additions		796
Disposals		(428)
Cost end of year		1.451
Depreciation and impairment losses beginning of the year		(428)
Depreciation for the year		(85)
Reversal regarding disposals		428
Depreciation and impairment losses end of the year		(85)
Carrying amount end of year		1.366

Notes to parent financial statements

	Investments in group enterprises DKK'000	Deposits DKK'000
3. Fixed asset investments		
Cost beginning of year	58.613	1.169
Transfers	16.287	0
Disposals	0	(837)
Cost end of year	74.900	332
Impairment losses beginning of year	(14.706)	0
Exchange rate adjustments	50	0
Transfers	(16.287)	0
Share of profit/loss for the year	17.302	0
Impairment losses end of year	(13.641)	0
Carrying amount end of year	61.259	332

	Registered In	Equity inte- rest %
Investments in associates comprise:		
Azanta AS	Oslo, Norway	100,0
Azanta AB	Stockholm, Sweden	100,0
Azanta Oy	Espoo, Finland	100,0
Azanta Ltd.	Hertfortshire, UK	100,0
Azanta Danmark A/S	Valby, Denmark	100,0
Azanta Pharma AB	Valby, Denmark	100,0

Azanta Pharma AB has during the year merged with Azanta AB.
Azanta Ltd. is deregistered during the year.

4. Unrecognised rental and lease commitments

The Company has rent payments concerning a contract, which is interminable until 31 May 2023, amounting to DKK 4,241 thousand.

5. Contingent liabilities

The Entity serves as an administration company in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable from the financial year 2013 for income taxes etc. for the jointly taxed entities and from 1 July 2012 also for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for these entities.

Notes to parent financial statements

6. Mortgages and securities

Azanta A/S and Azanta Danmark A/S have granted Norgine Venture a general floating charge of EUR 3 million on the Company's assets. The charge includes goodwill, rights, operating equipment, inventories and accounts receivable.

In a comfort letter dated 22 June 2016, Azanta A/S has confirmed its full financial support to the subsidiary, Azanta AS, Norway.

In a comfort letter dated 31 December 2016, Azanta A/S has confirmed its full financial support to the subsidiary, Azanta AB, Sweden.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class B enterprises with addition of certain provisions for reporting class C.

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements

The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence. Enterprises in which the Group, directly or indirectly, holds between 20% and 50% of the voting rights and exercises significant, but not controlling influence are regarded as associates.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, Intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the acquisition date, with net assets having been calculated at fair value.

Accounting policies

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer.

Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory write-downs.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes write-downs of receivables recognised in current assets.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc. for entity staff.

Depreciation, amortisation and impairment losses

Amortisation, depreciation and impairment losses relating to property, plant and equipment comprise amortisation, depreciation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of property, plant and equipment.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

Other financial income

Other financial income comprises dividends etc. received on other investments, interest income, including interest income on receivables from group enterprises, net capital gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Accounting policies

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Property, plant and equipment

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment	3-5 years
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Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus or minus unamortised goodwill and plus or minus unrealised intra-group profits or losses.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less write-downs for bad and doubtful debts.

Inventories

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

Cost consists of purchase price plus delivery costs

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Accounting policies

Income tax payable or receivable

Current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Other investments

Securities recognised under current assets comprise listed securities measured at fair value (market price) at the balance sheet date.

Cash

Cash comprises cash in hand and bank deposits.

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.