
MSD Danmark ApS

Havneholmen 25, DK-1561 København V

Annual Report for 1 January - 31 December 2019

CVR No 29 88 37 18

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
3 /7 2020

Thomas Weincke
Chairman

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Management's Statement

The Executive Board has today considered and adopted the Annual Report of MSD Danmark ApS for the financial year 1 January - 31 December 2019.

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 2019 of the Company and of the results of the Company operations for 2019.

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

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

Copenhagen, 3 July 2020

Executive Board

Funda Zeynep Ekincioglu
CEO

Torstein Winterstø Ljøkjel

Andreas Daugaard Jørgensen

Independent Auditor's Report

To the Shareholder of MSD Danmark ApS

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of MSD Danmark ApS for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Hellerup, 3 July 2020

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Ulrik Ræbild
State Authorised Public Accountant
mne33262

Thomas Lauritsen
State Authorised Public Accountant
mne34342

Company Information

The Company

MSD Danmark ApS
Havneholmen 25
DK-1561 København V

Telephone: + 45 44 82 40 00
Website: www.msd.dk

CVR No: 29 88 37 18
Financial period: 1 January - 31 December
Municipality of reg. office: København

Executive Board

Funda Zeynep Ekincioglu
Torstein Winterstø Ljøkjel
Andreas Daugaard Jørgensen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Financial Highlights

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

	2019 TDKK	2018 TDKK	2017 TDKK	2016 TDKK	2015 TDKK
Key figures					
Profit/loss					
Revenue	733.617	682.930	571.204	430.347	442.338
Gross profit/loss	141.480	128.978	138.629	141.735	126.394
Profit/loss before financial income and expenses	21.572	18.481	24.439	15.358	15.086
Net financials	-102	-81	286	-629	-2.398
Net profit/loss for the year	15.471	13.255	17.266	9.214	8.341
Balance sheet					
Balance sheet total	311.173	236.722	213.673	193.466	269.493
Equity	77.964	62.493	49.238	31.972	22.758
Investment in property, plant and equipment	0	319	0	6.820	0
Number of employees	121	116	119	115	108
Ratios					
Gross margin	19,3%	18,9%	24,3%	32,9%	28,6%
Profit margin	2,9%	2,7%	4,3%	3,6%	3,4%
Return on assets	6,9%	7,8%	11,4%	7,9%	5,6%
Solvency ratio	25,1%	26,4%	23,0%	16,5%	8,4%
Return on equity	22,0%	23,7%	42,5%	33,7%	32,0%

The ratios have been prepared in accordance with the definitions described under accounting policies.

Management's Review

The Annual Report of MSD Danmark ApS ("MSD Danmark" or the "Company") for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying for large enterprises of reporting class C.

The Annual Report has been prepared under the same accounting policies as last year.

Key activities

The Company's business is importing and selling pharmaceuticals to treat patients within oncology, vaccines, acute hospital care, diabetes, cardio-vascular diseases, hepatitis, antibiotics as well as HIV.

Development in the year

In 2019 the overall revenue grew by 7%. The growth was primarily driven by Oncology and Vaccines. The overall result for 2019 was in line with expectations and Management concludes that the result was very satisfying.

Knowledge Resources

MSD Danmark is a knowledge intensive company, which employs 121 skilled and dedicated employees. Approximately 85% of employees are specialists with specific knowledge in research, development, sales and marketing of Human therapeutics.

Special Risks

The Company is not exposed to particular operational risks or risks relating to financial matters.

Research

Clinical research is an important part of MSD Danmark's strategic plan, and Global Clinical Trial Organization (GCTO) is MSD's clinical research department. On a worldwide scale, GCTO runs clinical research in nearly 50 countries, and GCTO Danmark is one of the country's largest clinical trial departments making MSD Danmark one the international pharmaceutical companies which invest most in clinical research in Denmark. Annual investments in research amount to approximately DKK 51,8 million.

Management's Review

Public/private partnerships

Through our diversity of leading treatments, MSD has far-reaching engagements with the Danish health care system and provides an expertise deeply rooted in our scientific legacy. It is our wish and strategy to engage in partnerships and form alliances to find innovative solutions that meet the needs of patients and face the challenges of health care systems. Therefore, we have entered and will continue to enter into public and private partnerships – be it formal or informal - with the purpose of supporting research and improving public health in Denmark.

An example is MSD Denmark's engagement in Trial Nation, a public private partnership established on the Foundation of the NEXT Partnership dating back to 2014. Trial Nation envisions Denmark as a world-class country of choice for early clinical testing of new medicine in patients which will strengthen early clinical research in Denmark, and provide Danish patients early access to novel medical therapy.

Another example is MSD Denmark's partnership with Odense University Hospital on a fellowship programme as well as a number of partnerships based on Outcome Research and real world evidence programmes in all health care regions in Denmark.

Statement of corporate social responsibility

Business model

MSD Denmark ApS business is importing and selling pharmaceuticals to treat patients within oncology, vaccines, acute hospital care, diabetes, cardio-vascular diseases, hepatitis, antibiotics as well as HIV.

For more than a century, MSD has have been inventing medicines and vaccines for many of the world's most challenging diseases and we have built a company with the talent, tenacity and strength to take on some of the biggest threats to human and animal health. Reflecting our commitment to managing environmental, social and governance (ESG) issues, we continue to focus our approach to corporate responsibility in four primary areas that are of greatest relevance to our business and society.

Please refer to <https://www.msdrresponsibility.com> for in-depth information to MSD's corporate social responsibility.

Principles

Environment

Our company strives to conduct business in a safe and environmentally responsible manner. We are committed to providing a safe and healthy workplace and reducing the environmental impact of our operations around the world. We believe that promoting wellness for employees and respect for the environment is not just the lawful thing to do; it's the right thing to do (<https://www.msdrresponsibility.com/environmental-sustainability>). Management believes that the guidelines for the environmental area have been maintained in 2019 and there have been no violations of the principles in the financial year.

Management's Review

Social & employee responsibility

We recognize that our ability to excel depends on the integrity, knowledge, imagination, skill, diversity and teamwork of our employees. A positive, inclusive and high-performing work environment is essential for employees to feel welcomed and valued, and to fully achieve their business objectives.

We value global diversity and inclusion at every level of the organization and strive for inclusiveness in every aspect of work. Harnessing the knowledge and insights of a globally diverse workforce requires leadership, a corporate culture of respect and full engagement, and a thoughtful and strategic approach to workplace inclusion and employee development and well-being - physical, emotional, social and financial (<https://www.merck.com/about/how-we-operate/compliance/home.html>). Management believes that the guidelines for the area of social & employee responsibilities have been maintained in 2019 and there have been no violations of the principles in the financial year.

Human rights, anti-corruption and anti-bribery

The people who use, recommend or prescribe our products have placed their trust in us. No matter how strong our reputation, we must re-earn that trust every day by practicing the values and standards that have guided this company for more than 100 years.

We work hard to make sure that the integrity of this company remains a priority for every one of our employees - every day, at every level of our company. Our code of conduct, which we publish for employees under the title Our Values and Standards, helps to make sure that our employees understand what is expected of them, and provides guidance on business standards and practices. This is just one of the many ways that we continually reinforce the values on which this company was built (<http://www.msd.com/about/how-we-operate/code-of-conduct/home.html>). Management believes that the guidelines for the areas of human rights, anti-corruption and anti-bribery have been maintained in 2019 and there have been no violations of the principles in the financial year.

Principles - risks

We do not perceive risks related to Environment, Social & Employee responsibility, Human Rights, Anti-corruption and Anti-bribery, nor our principles. We operate in a well-regulated market and we have strong governance surrounding our supply chain network.

Volunteerism

All employees have the opportunity to participate in volunteer work for up to 40 hours yearly.

Ethical standards

MSD Danmark strives through professionalism and innovation to ensure that we are – and remain – a credible and relevant partner for stakeholders in all of our therapeutic areas; whether it regards doctors, patient associations, healthcare authorities or others. MSD Danmark's policy of collaboration with stakeholders follows Pharmaceutical Industry Associations "Ethical Guidelines". MSD Danmark is also part of the pharmaceutical industry association lobby codex.

Management's Review

Statement on gender composition

The Executive Board comprises of 3 members, 2 men and 1 woman. The Extended Danish Leadership Team consists of five women and seven men.

MSD Danmark has implemented an equal opportunities policy to all levels of management within the company. The policy is an addition to the personnel policy and sets targets for gender equality at all levels of management with employee responsibility. In 2019, the company was not underrepresented at any level of management. MSD Danmark considers recruitment, training and development as important to continue to ensure equality in the company at management levels.

Achievements and future expectations

We continue our corporate social responsibility efforts and are continually improving our social responsibility.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Subsequent events

In March 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. The prioritization of COVID-19 patients at health care providers, as well as widespread social distancing measures, currently is resulting in reduced administration of many of the Company's human health products. Continuity of supply of the Company's medicines and vaccines to its patients and customers is a critical priority. The Company is implementing steps to ensure business continuity. To date, the COVID-19 pandemic has not had a material impact on the production and supply of our medicines and vaccines and the Company continues to have normal supply levels for most of its products. The Company currently believes supply of its medicines and vaccines will remain at normal levels through the pandemic. The Company's financial position is allowing the Company to maintain liquidity and access capital markets, as needed. The degree to which COVID-19 impacts the Company's results will depend on future developments, including, but not limited to, the duration and spread of the outbreak, its severity, the actions taken to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company.

Management do not expect a significant impact on revenue in 2020. Management is monitoring developments closely, and will continue to assess as to whether and, if so, to what extent COVID-19 will impact revenue and earnings in 2020.

Management's Review

Expected development

The Company expects its revenue in 2020 to be 10-15% above the result for 2019. The main drivers for the sales growth are Oncology and Vaccines. The expectation is that the EBIT and EBITDA margins will remain at the same level as the margins in 2019.

Income Statement 1 January - 31 December

	Note	2019 TDKK	2018 TDKK
Revenue	2	733.617	682.930
Other operating income		2.782	2.396
Expenses for raw materials and consumables		-527.131	-487.024
Other external expenses		-67.788	-69.324
Gross profit/loss		141.480	128.978
Staff expenses	3	-118.238	-108.805
Depreciation and amortisation		-1.670	-1.692
Profit/loss before financial income and expenses		21.572	18.481
Financial income	4	258	312
Financial expenses	5	-360	-393
Profit/loss before tax		21.470	18.400
Tax on profit/loss for the year	6	-5.999	-5.145
Net profit/loss for the year		15.471	13.255

Balance Sheet 31 December

Assets

	Note	2019 TDKK	2018 TDKK
Other fixtures and fittings, tools and equipment		3.417	4.133
Leasehold improvements		4.425	5.149
Property, plant and equipment in progress		0	229
Property, plant and equipment	7	7.842	9.511
Other receivables		3.051	3.261
Fixed asset investments	8	3.051	3.261
Fixed assets		10.893	12.772
Trade receivables		267.124	186.542
Receivables from group enterprises		23.630	34.402
Other receivables		4.326	254
Deferred tax asset	9	1.582	447
Prepayments	10	2.953	846
Receivables		299.615	222.491
Cash at bank and in hand		665	1.459
Currents assets		300.280	223.950
Assets		311.173	236.722

Balance Sheet 31 December

Liabilities and equity

	Note	2019 TDKK	2018 TDKK
Share capital		1.601	1.601
Retained earnings		76.363	60.892
Equity	11	77.964	62.493
Other provisions	13	652	917
Provisions		652	917
Other payables		4.277	0
Long-term debt	14	4.277	0
Trade payables		17.551	23.575
Payables to group enterprises		176.782	111.644
Corporation tax		947	1.871
Other payables	14	33.000	36.222
Short-term debt		228.280	173.312
Debt		232.557	173.312
Liabilities and equity		311.173	236.722
Subsequent events	1		
Distribution of profit	12		
Contingent assets, liabilities and other financial obligations	15		
Related parties	16		
Fee to auditors appointed at the general meeting	17		
Accounting Policies	18		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 January	1.601	60.892	62.493
Net profit/loss for the year	0	15.471	15.471
Equity at 31 December	1.601	76.363	77.964

Notes to the Financial Statements

1 Subsequent events

The implications of COVID-19 with many governments across the world deciding to "close down their countries" will have great impact on the global economy. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company.

Management expects COVID-19 will only have a limited impact on revenue as well as profit for 2020, if any. Currently, the Company has not experienced any drop-down in orders, as well as the Group's production facilities have not been significantly affected and have so far been able to meet the delivery needs

Management is monitoring developments closely, but it is too early to assess as to whether and, if so, to what extent COVID-19 will impact revenue and earnings in 2020.

2 Revenue

Geographical segments has not been specified in accordance with section 96(1) of the Danish Financial Statement Act, as the Company only operates in one geographical segment with one activity being the sales of pharmaceuticals.

3 Staff expenses

	2019 TDKK	2018 TDKK
Wages and salaries	127.621	116.207
Pensions	11.190	10.591
Other social security expenses	1.029	893
Recharged costs	-21.602	-18.886
	118.238	108.805
Including remuneration to the Executive Board	3.373	5.291
Average number of employees	121	116

Notes to the Financial Statements

	2019 TDKK	2018 TDKK
4 Financial income		
Interest received from group enterprises	2	35
Exchange adjustments	256	277
	258	312
5 Financial expenses		
Interest paid to group enterprises	35	23
Other financial expenses	128	239
Exchange adjustments	197	131
	360	393
6 Tax on profit/loss for the year		
Current tax for the year	6.463	4.949
Deferred tax for the year	-250	555
Adjustment of tax concerning previous years	671	-74
Adjustment of deferred tax concerning previous years	-885	-285
	5.999	5.145

Notes to the Financial Statements

7 Property, plant and equipment

	Other fixtures and fittings, tools and equipment TDKK	Leasehold improvements TDKK	Property, plant and equipment in progress TDKK
Cost at 1 January	6.836	7.244	229
Transfers for the year	229	0	-229
Cost at 31 December	7.065	7.244	0
Impairment losses and depreciation at 1 January	2.703	2.095	0
Depreciation for the year	945	724	0
Impairment losses and depreciation at 31 December	3.648	2.819	0
Carrying amount at 31 December	3.417	4.425	0
Depreciated over	3-10 years	5-10 years	

8 Fixed asset investments

	Other receivables TDKK
Cost at 1 January	3.261
Disposals for the year	-210
Cost at 31 December	3.051
Carrying amount at 31 December	3.051

Notes to the Financial Statements

	2019 TDKK	2018 TDKK
9 Deferred tax asset		
Deferred tax asset at 1 January	447	717
Amounts recognised in the income statement for the year	1.135	-270
Deferred tax asset at 31 December	1.582	447
Intangible assets	-180	-225
Property, plant and equipment	136	134
Other provisions	-1.538	-356
Transferred to deferred tax asset	1.582	447
	0	0
Deferred tax asset		
Calculated tax asset	1.582	447
Carrying amount	1.582	447

The recognised tax asset comprises deferred tax expected to be utilised within the next three to four years. In connection with the assessment of the utilisation of the tax asset, special emphasis has been placed on the Companys ability to generate profit, and expect to do so in the future.

10 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

11 Equity

The share capital consists of 1.601 shares of a nominal value of TDKK 1.601. No shares carry any special rights.

12 Distribution of profit

Retained earnings	15.471	13.255
	15.471	13.255

Notes to the Financial Statements

	2019 TDKK	2018 TDKK
13 Other provisions		
Other provisions consists of obligations related to repurchasing sold goods, where the company is obliged to repurchase the goods upon expiry.		
Other provisions	652	917
	652	917

14 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

Between 1 and 5 years	4.277	0
Long-term part	4.277	0
Other short-term payables	33.000	36.222
	37.277	36.222

15 Contingent assets, liabilities and other financial obligations

Contingent liabilities

Rental and lease commitments comprise rent of premises and lease of vehicles and amounts to DKK 15,836k. (2018: DKK 22,371k).

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable by the Group has not yet been calculated. Moreover, the Danish group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

16 Related parties

	<u>Basis</u>
Controlling interest	
Merck & Co., Inc. 2000 Galloping Hill Road Kenilworth NJ 07033 USA	Ultimate parent company
MSD Human Health Holding B.V. Kloosterstraat 6 5349 AB, Oss Netherlands	Controlling shareholder
Other related parties	
Funda Zeynep Ekincioglu	Executive Board
Torstein Winterstø Ljøkjel	Executive Board
Andreas Daugaard Jørgensen	Executive Board

Transactions

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

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company Merck & Co., Inc.

The Group Annual Report for Merck & Co., Inc may be obtained at the following address:

Merck & Co., Inc.
2000 Galloping Hill Road
Kenilworth NJ
07033 USA

www.merck.com

Notes to the Financial Statements

	2019 TDKK	2018 TDKK
17 Fee to auditors appointed at the general meeting		
Audit fee to PricewaterhouseCoopers	259	320
Other services	60	60
	319	380

Notes to the Financial Statements

18 Accounting Policies

The Annual Report of MSD Danmark ApS for 2019 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 2019 are presented in TDKK.

Cash flow statement

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

Recognition and measurement

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

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

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

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

Danish kroner is used as the measurement currency. All other currencies are regarded as foreign currencies.

Translation policies

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

Notes to the Financial Statements

18 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 rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Income Statement

Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when delivery and transfer of risk to the buyer have been made before year end.

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

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

Amortisation, depreciation and impairment losses

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

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment and mark-up on the Company's research activities.

Financial income and expenses

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

Notes to the Financial Statements

18 Accounting Policies (continued)

Tax on profit/loss for the year

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

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

Balance Sheet

Property, plant and equipment

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

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

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

Other fixtures and fittings ect.	3-10 years
Leasehold improvements	5-10 years

Impairment of fixed assets

The carrying amounts of 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. This impairment test is performed on an annual basis for development projects in progress irrespective of any indication of impairment.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

Fixed asset investments

Fixed asset investments consist of deposits.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

Prepayments

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

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

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

18 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

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