
MSD Danmark ApS

Havneholmen 25, DK-1561 København V

Annual Report for 1 January - 31 December 2020

CVR No 29 88 37 18

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
28/6 2021

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 2020.

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 2020 of the Company and of the results of the Company operations for 2020.

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, 28 June 2021

Executive Board

Catherine Rebecca Sidgreaves
CEO

Funda Zeynep Ekincioglu

Torstein Winterstø Ljøkjel

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 2020 and of the results of the Company's operations for the financial year 1 January - 31 December 2020 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 2020, 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, 28 June 2021

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: Copenhagen

Executive Board

Catherine Rebecca Sidgreaves
Funda Zeynep Ekincioglu
Torstein Winterstø Ljøkjel

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:

	2020 TDKK	2019 TDKK	2018 TDKK	2017 TDKK	2016 TDKK
Key figures					
Profit/loss					
Revenue	754.065	733.617	682.930	571.204	430.347
Gross profit/loss	154.697	141.480	128.978	138.629	141.735
Profit/loss before financial income and expenses	24.820	21.572	18.481	24.439	15.358
Net financials	-2.710	-102	-81	286	-629
Net profit/loss for the year	16.530	15.471	13.255	17.266	9.214
Balance sheet					
Balance sheet total	386.565	311.173	236.722	213.673	193.466
Equity	73.206	77.964	62.493	49.238	31.972
Investment in property, plant and equipment	65	0	319	0	6.820
Number of employees	118	121	116	119	115
Ratios					
Gross margin	20,5%	19,3%	18,9%	24,3%	32,9%
Profit margin	3,3%	2,9%	2,7%	4,3%	3,6%
Return on assets	6,4%	6,9%	7,8%	11,4%	7,9%
Solvency ratio	18,9%	25,1%	26,4%	23,0%	16,5%
Return on equity	21,9%	22,0%	23,7%	42,5%	33,7%

Management's Review

The Annual Report of MSD Danmark ApS ("MSD Danmark" or the "Company") for 2020 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

The income statement of the Company for 2020 shows a profit of TDKK 16,530, and at 31 December 2020 the balance sheet of the Company shows equity of TDKK 73,206.

In 2020 the overall revenue grew by 3%. The growth was primarily driven by Oncology and Vaccines.

During the financial year 2020 a demerger of the Company's Organon portfolio with more than 60 medicines and products across an international footprint was made.

From November 2020 the two businesses have been operating out of the office in Copenhagen and a full division of the businesses occurred in June 2021.

Due to the merger and following Global guidance the company legal setup has been changed to a split into 2 separate legal entities:

- MSD Danmark ApS
- Organon Denmark ApS

The demerger of the Organon portfolio into Organon Denmark ApS has been made with accounting effect February 24th, 2020, the date Organon Denmark ApS was founded. The net effect of the demerger is recognized directly on the Equity in an amount of TDKK 21.288.

The comparatives have not been restated.

The growth rate in 2020 is impacted by the merger of the Organon portfolio, however the overall result for 2020 was in line with expectations and Management concludes that the result was satisfying. The EBIT and EBITDA margin are in line with previous years, and in line with our expectations for 2020.

Knowledge Resources

MSD Danmark is a knowledge intensive company, which employs 118 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.

Management's Review

Research

Clinical research is an important part of MSD Denmark'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 Denmark is one of the country's largest clinical trial departments making MSD Denmark one of the international pharmaceutical companies which invest most in clinical research in Denmark. Annual investments in research amount to approximately DKK 47,9 million.

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 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 program as well as a number of partnerships based on Outcome Research and real-world evidence programs in all health care regions in Denmark.

Management's Review

Statement of corporate social responsibility

Business model

MSD Danmark 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 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 2020 and there have been no violations of the principles in the financial year.

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 2020 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

Management's Review

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 2020 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.

Achievements and future expectations

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

Statement on gender composition, cf. section 99b of the Danish Financial Statements Act

The Board of Directors comprises 3 members, 2 women and 1 man and as such there is an equal gender composition on the Board. The Extended Danish Leadership Team consists of 6 women and 6 men. As there is an equal representation the company does not have to report on a policy for the underrepresented gender on other management levels

Uncertainty relating to recognition and measurement

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

Subsequent events

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

Expected development

The Company expects its revenue in 2021 to be 1-2% above the result for 2020. The main drivers in 2021 are Oncology and Vaccines. The expectation is that the EBIT and EBITDA margins will remain at the same level as the margins in 2020

Income Statement 1 January - 31 December

	Note	2020 TDKK	2019 TDKK
Revenue	2	754.065	733.617
Other operating income		2.833	2.782
Expenses for raw materials and consumables		-544.097	-527.131
Other external expenses		-58.104	-67.788
Gross profit/loss		154.697	141.480
Staff expenses	3	-128.224	-118.238
Depreciation and amortisation		-1.653	-1.670
Profit/loss before financial income and expenses		24.820	21.572
Financial income	4	183	258
Financial expenses	5	-2.893	-360
Profit/loss before tax		22.110	21.470
Tax on profit/loss for the year	6	-5.580	-5.999
Net profit/loss for the year		16.530	15.471

Balance Sheet 31 December

Assets

	Note	2020 TDKK	2019 TDKK
Other fixtures and fittings, tools and equipment		2.488	3.417
Leasehold improvements		3.701	4.425
Property, plant and equipment in progress		65	0
Property, plant and equipment	7	6.254	7.842
Other receivables		3.049	3.051
Fixed asset investments	8	3.049	3.051
Fixed assets		9.303	10.893
Trade receivables		189.322	267.124
Receivables from group enterprises		182.923	23.630
Other receivables		941	4.326
Deferred tax asset	9	1.374	1.582
Prepayments	10	2.342	2.953
Receivables		376.902	299.615
Cash at bank and in hand		360	665
Currents assets		377.262	300.280
Assets		386.565	311.173

Balance Sheet 31 December

Liabilities and equity

	Note	2020 TDKK	2019 TDKK
Share capital	11	1.601	1.601
Retained earnings		71.605	76.363
Equity		73.206	77.964
Other provisions	13	4.224	652
Provisions		4.224	652
Other payables		12.774	4.277
Long-term debt	14	12.774	4.277
Trade payables		14.260	17.551
Payables to group enterprises		236.471	176.782
Corporation tax		1.790	947
Other payables	14	43.840	33.000
Short-term debt		296.361	228.280
Debt		309.135	232.557
Liabilities and equity		386.565	311.173
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	76.363	77.964
Net effect from demerger and business sale under the uniting of interests method	0	-21.288	-21.288
Adjusted equity at 1 January	1.601	55.075	56.676
Net profit/loss for the year	0	16.530	16.530
Equity at 31 December	1.601	71.605	73.206

Notes to the Financial Statements

1 Subsequent events

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

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

	2020 TDKK	2019 TDKK
Wages and salaries	127.801	127.621
Pensions	11.393	11.190
Other social security expenses	1.588	1.029
Recharged costs	-12.558	-21.602
	128.224	118.238
Including remuneration to the Executive Board	3.879	3.373
Average number of employees	118	121

4 Financial income

Interest received from group enterprises	0	2
Exchange adjustments	183	256
	183	258

5 Financial expenses

Interest paid to group enterprises	28	35
Other financial expenses	102	128
Exchange adjustments	2.763	197
	2.893	360

Notes to the Financial Statements

	2020 TDKK	2019 TDKK
6 Tax on profit/loss for the year		
Current tax for the year	5.372	6.463
Deferred tax for the year	208	-250
Adjustment of tax concerning previous years	0	671
Adjustment of deferred tax concerning previous years	0	-885
	5.580	5.999

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	7.065	7.244	0
Additions for the year	0	0	65
Cost at 31 December	7.065	7.244	65
Impairment losses and depreciation at 1 January	3.648	2.819	0
Depreciation for the year	929	724	0
Impairment losses and depreciation at 31 December	4.577	3.543	0
Carrying amount at 31 December	2.488	3.701	65
Depreciated over	3-10 years	5-10 years	

8 Fixed asset investments

	Other receivables TDKK
Cost at 1 January	3.051
Disposals for the year	-2
Cost at 31 December	3.049
Carrying amount at 31 December	3.049

Notes to the Financial Statements

	2020 TDKK	2019 TDKK
9 Deferred tax asset		
Deferred tax asset at 1 January	1.582	447
Amounts recognised in the income statement for the year	-208	250
Amounts recognised in equity for the year	0	885
Deferred tax asset at 31 December	1.374	1.582
Intangible assets	-135	-180
Property, plant and equipment	90	136
Other provisions	-1.329	-1.538
Transferred to deferred tax asset	1.374	1.582
	0	0
Deferred tax asset		
Calculated tax asset	1.374	1.582
Carrying amount	1.374	1.582

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 1.000. No shares carry any special rights.

Notes to the Financial Statements

	2020 TDKK	2019 TDKK
12 Distribution of profit		
Retained earnings	16.530	15.471
	16.530	15.471

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	4.224	652
	4.224	652

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	12.774	4.277
Long-term part	12.774	4.277
Other short-term payables	43.840	33.000
	56.614	37.277

Notes to the Financial Statements

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 10.044k (2019: DKK 15,836k).

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	
Catherine Rebecca Sidgreaves	Executive Board
Funda Zeynep Ekincioglu	Executive Board
Torstein Winterstø Ljøkjel	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

	2020 TDKK	2019 TDKK
17 Fee to auditors appointed at the general meeting		
Audit fee to PricewaterhouseCoopers	234	259
Other services	60	60
	294	319

Notes to the Financial Statements

18 Accounting Policies

The Annual Report of MSD Danmark ApS for 2020 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 2020 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.

Demerger of Women Health activities into Organon Denmark ApS

The demerger has been treated in accordance with Section 123 of the Danish Financial Statements Act – pooling of interest method (book values) with effect as of 24 February 2020. This means that all identifiable assets and liabilities have been disposed in the Financial Statements at book values as of the demerger date, and comparative figures have not been restated.

Notes to the Financial Statements

18 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

Financial income and expenses

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

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

The fixed assets' residual values are determined at nil.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

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 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.

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	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$