Samplix ApS

Mileparken 28, DK-2730 Herlev

Annual Report for 1 January - 31 December 2019

CVR No 32 30 93 21

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 27/8 2020

Frans Rossen
Chairman of the General Meeting

Contents

pwc

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Samplix 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.

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

Herlev, 11 August 2020

Executive Board

Lars Kongsbak CEO	Ninni Thorkilgaard CFO

Board of Directors

Erik Max Michael Obermayer Chairman	Anders Weber	Arild Nerdrum
Lars Krogsgaard	Rodney Weldon Turner	

Independent Auditor's Report

To the Shareholders of Samplix 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 Samplix 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 Financials 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.

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 misstate-

ment, whether due to fraud or error.

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

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

- 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.

Hillerød, 11 August 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Henrik Aslund Pedersen
statsautoriseret revisor
mne17120

Company Information

The Company	Samplix ApS Mileparken 28 DK-2730 Herlev CVR No: 32 30 93 21 Financial period: 1 January - 31 December Municipality of reg. office: Herlev
Board of Directors	Erik Max Michael Obermayer, Chairman Anders Weber Arild Nerdrum Lars Krogsgaard Rodney Weldon Turner
Executive Board	Lars Kongsbak Ninni Thorkilgaard
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Milnersvej 43 DK-3400 Hillerød

Management's Review

Financial Statements of Samplix ApS for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

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

Key activities

DNA sequencing is instrumental in modern healthcare. Next Generation Sequencing makes it possible to decipher all genes of human beings, which may reveal genetic variations important for diagnosis and personalized treatment. In the past 10 years, sequencing has paved the way for astonishing discoveries within medicine.

Samplix aspires to become a leading provider of products for single molecule sample preparation for gene sequencing. Samplix has developed a unique and proprietary microfluidics product portfolio for encapsulation of single molecules (DNA) in droplets that allow for identification and enrichment of molecules of interest prior to final multiplication of the target DNA.

Our proprietary process maintains the integrity of the DNA, which allows for more accurate retrieval and interpretation of genetic information. Our value proposition is unique and holds the potential to transform the way many DNA samples are processed.

2019 - A Transforming Year

2019 has been a transforming year with the following accomplishments:

- Completed the development of the first generation of products
- Established a dedicated organization of highly skilled employees
- Secured a strong portfolio of patents to protect our business
- Partnered with very experienced manufacturers who are fully capable of supporting Samplix for years to come

In September 2019 products were launched for beta-testing providing a complete workflow for sample preparation. The Xdrop® instrument is designed to process two single-use cartridges – 1) a dPCR cartridge which enables targeted enrichment of DNA and 2) a dMDA cartridge for subsequent multiplication of the enriched target. Each cartridge can run 8 samples in parallel. In addition to the instrument and cartridges, Samplix provides tailormade reagents for the system, which can be designed to the specific needs of the customers in our online software tool.

The feedback from beta-testers has been very positive. Our products target a very broad group of customers. The initial prospects that Samplix is engaged in, address a variety of applications such as verification of gene editing (CRISPR), investigation of the complex genetics related to neural disorders e.g. Alzheimer, determine how viral infections may impact the onset of cancer, plant breeding to improve e.g. drought resistance, improve fermentation processes and a lot more. It is truly a privilege to enable such important discoveries.

With the objective of becoming a global provider of tools for sample preparation we maintain focus on building a multidisciplinary and multinational organisation. We are now 31 employees, with equal gender balance and 10 different nationalities. 61% of the workforce holds a Ph.D. degree covering a wide array of disciplines including molecular biology, microfluidics, programming, bioinformatics, cell biology, genomics, biochemistry, instrument engineering etc.

We have secured a strong portfolio of patents to secure a leading proprietary position. In total, we now have 9 patent families, 18 issued patents and 3 trademarks and freedom to operate verified by leading US patent lawyers.

Development in the year

The income statement of the Company for 2019 shows a loss of DKK 24,406,312, and at 31 December 2019 the balance sheet of the Company shows equity of DKK 4,389,829.

In January 2019, Samplix was awarded a grant of €1.9m from the European Union's Horizon 2020 – SME instrument program. Only ~3% out of +1.800 applications were awarded grants. The money will be paid over a duration of 24 month starting in May 2019 and completing in April 2021.

In October 2019, existing shareholders invested additional €2m structured as a convertible bond.

On 16 December 2019 Samplix Aps was merged with Samplix S.a.r.l. to establish a lean and harmonized organization with a clear assignment of tasks, responsibilities and processes and lower barriers for potential investors.

Samplix' accounts are prepared on a going concern basis based on a strategy with accompanying budgets, which inherently are subject to a number of assumptions and uncertainties including an assumption of continued financing of the Company's work towards full commercialization of the instrument and associated consumables from January 2020.

Executive Management acknowledges that there are risks associated with executing the planned strategy and achieving the budget approved by the Board of Directors of the Company. Executive Management is convinced that the Company has sufficient capital to fund the current strategy throughout 2020.

In the 1st half of 2020 Samplix increased liquidity by bond financing in February 2020 (€1.5m) and June 2020 (€1.4m). Furthermore, the Company has received cash inflow related to accelerated R&D tax returns and 2nd instalment of H2020 EU grant in the 2nd half of 2020.

Executive Management expects that the requirement for additional capital requirement in 2020 will be covered by the capital increase planned for Q4 2020 under recent authorizations by the Board of Directors. Measures which can be taken to ensure that sufficient capital resources are available have been identified and will prolong the current runway should the capital increase planned for Q4 2020 be delayed.

Subsequent events

Covid-19 has negatively impacted commercial role out. Except for the additional financing in 2020 and the negative impact from Covid-19 no events have occured after the balance sheet date of importance to the Annual Report.

Income Statement 1 January - 31 December

	Note	2019	2018
		DKK	DKK
Gross profit/loss		**3,656,602**	**1,080,661**
Sales and marketing expenses	3	-5,534,059	-16,519
Research and development expenses	3	-20,363,218	-16,522,801
General and administrative expenses	3	-7,006,517	-4,219,276
Operating profit/loss		**-29,247,192**	**-19,677,935**
Profit/loss before financial income and expenses		**-29,247,192**	**-19,677,935**
Financial income		24,054	81,230
Financial expenses		-550,922	-126,190
Profit/loss before tax		**-29,774,060**	**-19,722,895**
Tax on profit/loss for the year	4	5,367,748	3,092,273
Net profit/loss for the year		**-24,406,312**	**-16,630,622**

Distribution of profit

	2019	2018
	DKK	DKK
Proposed distribution of profit		
Retained earnings	-24,406,312	-16,630,622
	-24,406,312	**-16,630,622**

Balance Sheet 31 December

Assets

	Note	2019	2018
		DKK	DKK
Acquired patents		1,817,323	1,870,961
Acquired licenses		165,360	115,387
Development projects in progress		6,662,159	2,463,000
Intangible assets	5	**8,644,842**	**4,449,348**
Other fixtures and fittings, tools and equipment		831,106	169,314
Leasehold improvements		85,607	16,725
Property, plant and equipment	6	**916,713**	**186,039**
Deposits		460,740	460,740
Fixed asset investments	7	**460,740**	**460,740**
Fixed assets		**10,022,295**	**5,096,127**
Finished goods and goods for resale		4,582,610	0
Prepayments for goods		831,650	0
Inventories		**5,414,260**	**0**
Trade receivables		51,306	32,038
Other receivables		396,930	444,808
Corporation tax		5,403,723	3,635,016
Prepayments		177,640	116,251
Receivables		**6,029,599**	**4,228,113**
Cash at bank and in hand		**6,212,912**	**22,934,577**
Currents assets		**17,656,771**	**27,162,690**
Assets		**27,679,066**	**32,258,817**

Balance Sheet 31 December

Liabilities and equity

	Note	2019	2018
		DKK	DKK
Share capital		598,742	2,146,484
Reserve for development costs		5,196,484	0
Retained earnings		-1,405,397	26,649,657
Equity		**4,389,829**	**28,796,141**
Other payables		651,817	0
Long-term debt	8	**651,817**	**0**
Convertible instruments of debt		15,260,896	0
Trade payables		3,308,237	2,780,219
Other payables	8	1,399,876	682,457
Deferred income		2,668,411	0
Short-term debt		**22,637,420**	**3,462,676**
Debt		**23,289,237**	**3,462,676**
Liabilities and equity		**27,679,066**	**32,258,817**
Going concern	1		
Subsequent events	2		
Key activities			
Contingent assets, liabilities and other financial obligations	9		
Accounting Policies	10		

Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	DKK	DKK	DKK	DKK
Equity at 1 January	2,146,484	0	24,738,081	26,884,565
Net effect from merger and acquisition under the uniting of interests method	0	0	1,911,576	1,911,576
Adjusted equity at 1 January	2,146,484	0	26,649,657	28,796,141
Capital reduction	-1,547,742	0	1,547,742	0
Development costs for the year	0	5,196,484	-5,196,484	0
Net profit/loss for the year	0	0	-24,406,312	-24,406,312
Equity at 31 December	**598,742**	**5,196,484**	**-1,405,397**	**4,389,829**

Notes to the Financial Statements

1 Going concern

Many financial statement items cannot be measured but must be estimated. Such estimates comprise judgments based on the most recent information available at the reporting date. It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or due to supplementary information, additional experience or subsequent events.

Samplix' accounts are prepared on a going concern basis based on a strategy with accompanying budgets, which inherently are subject to a number of assumptions and uncertainties including an assumption of continued financing of the Company's work towards full commercialization of the instrument and associated consumables from January 2020.

Executive Management acknowledges that there are risks associated with executing the planned strategy and achieving the budget approved by the Board of Directors of the Company. Executive Management is convinced that the Company has sufficient capital to fund the current strategy throughout 2020.

In the 1st half of 2020 Samplix increased liquidity by bond financing in February 2020 (€1.5m) and June 2020 (€1.4m). Furthermore, the Company has received cash inflow related to accelerated R&D tax returns and 2nd instalment of H2020 EU grant in the 2nd half of 2020.

Executive Management expects that the requirement for additional capital requirement in 2020 will be covered by the capital increase planned for Q4 2020 under recent authorizations by the Board of Directors. Measures which can be taken to ensure that sufficient capital resources are available have been identified and will prolong the current runway should the capital increase planned for Q4 2020 be delayed.

2 Subsequent events

Covid-19 has negatively impacted commercial role out. Except for the additional financing in 2020 and the negative impact from Covid-19 no events have occured after the balance sheet date of importance to the Annual Report.

Notes to the Financial Statements

		2019	2018
		DKK	DKK
3	**Staff**		
	Wages and Salaries	15,341,157	6,417,766
	Pensions	1,068,277	691,487
	Other social security expenses	222,938	83,793
	Other staff expenses	1,231,175	177,448
		17,863,547	**7,370,494**
	Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
	Sales and marketing expenses	3,848,604	0
	Research and development expenses	14,244,048	4,979,323
	General and administrative expenses	-229,105	2,391,171
		17,863,547	**7,370,494**
	Average number of employees	**20**	**10**

		2019	2018
4	**Tax on profit/loss for the year**		
	Current tax for the year	-5,367,748	-3,579,086
	Deferred tax for the year	0	486,813
		-5,367,748	**-3,092,273**

pwc

Notes to the Financial Statements

5 Intangible assets

	Acquired patents	Acquired licenses	Development projects in progress
	DKK	DKK	DKK
Cost at 1 January	1,920,419	164,286	2,463,000
Additions for the year	68,503	96,260	6,662,159
Cost at 31 December	1,988,922	260,546	9,125,159
Impairment losses and amortisation at 1 January	49,458	48,900	0
Impairment losses for the year	0	0	2,463,000
Amortisation for the year	122,141	46,286	0
Impairment losses and amortisation at 31 December	171,599	95,186	2,463,000
Carrying amount at 31 December	**1,817,323**	**165,360**	**6,662,159**

Development projects in progress have been impaired in 2019. The reason is that the business case have been reassessed.

Deveopment projects at 31 December 2019 consist of development of products for which management has evalutated a great market potential.

6 Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leasehold improvements
	DKK	DKK
Cost at 1 January	689,550	21,126
Additions for the year	817,285	84,327
Cost at 31 December	1,506,835	105,453
Impairment losses and depreciation at 1 January	520,236	4,401
Depreciation for the year	155,493	15,445
Impairment losses and depreciation at 31 December	675,729	19,846
Carrying amount at 31 December	**831,106**	**85,607**

Notes to the Financial Statements

7 Fixed asset investments

	Deposits
	DKK
Cost at 1 January	460,740
Cost at 31 December	460,740
Carrying amount at 31 December	**460,740**

8 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:

	2019	2018
	DKK	DKK
Other payables		
Between 1 and 5 years	651,817	0
Long-term part	651,817	0
Other short-term payables	1,399,876	682,457
	2,051,693	**682,457**

9 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:		
Rental obligation, 9 months (2018: 21 months)	455,301	1,001,385
Leasing obligation, 4 - 34 months (2018: 6 - 43 months)	660,062	820,768
	1,115,363	**1,822,153**

Notes to the Financial Statements

10 Accounting Policies

The Annual Report of Samplix ApS for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2019 are presented in DKK.

Recognition and measurement

The Financial Statements have been prepared under the historical cost method.

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, provisions and adjustments as a consequense of changes to accounting estimates.

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.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

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

Business combinations

Uniting of interests

Intragroup business combinations are accounted for under the uniting-of-interests method. Under this method, the two enterprises are combined at carrying amounts, and no differences are identified. Any consideration which exceeds the carrying amount of the acquired enterprise is recognised directly in equity. The uniting-of-interests method is applied as if the two enterprises had always been combined by

Notes to the Financial Statements

10 Accounting Policies (continued)

restating comparative figures.

In 2019, Samplix ApS has merged with the mother company Samplix S.á.r.l in Luxemburg, with Samplix ApS as the continuing company. The combined net effect is an increase of 1,912k in equity, as shown under statement of changes in equity under adjusted equity at 1 January.

Translation policies

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

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 as financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

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.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Income Statement

Revenue

Product sales:
Revenue from the sale of goods comprises the sale of instruments and consumables is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company. If all risks and rewards have not been transferred, the revenue is recognised as deferred income until all components of the transaction have been completed.

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

Notes to the Financial Statements

10 Accounting Policies (continued)

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

Cost of sales

Cost of goods sold includes the cost of materials, direct labor and manufacturing, overhead costs used in the manufacture and supply chain handling of instruments and consumables, including royalties on product sales. Cost of goods sold also includes depreciation on revenue generating instruments that have been placed with the Company’s customers under a reagent rental agreement, cost of instruments sold to customers, amortization of licenses related to products and other costs such as product technical support. The Company procures both instruments and consumables from contract manufacturers and expects cost of goods sold to increase as the Company places additional instruments and consumables. Gross margins related to all products, however, the Company expects will increase as a percentage of sales as products mature and production volumes increase.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, cost of sales, other operating income.

Sales and marketing expenses

Sales and marketing expenses include costs associated with the Company’s direct sales force, sales management, marketing, technical support, business development activities and shipping and handling. These expenses primarily consist of salaries, commissions, benefits, travel, advertising, promotions, product samples and trade show expenses in addition to the costs of product shipments. The Company expects sales and marketing expenses to increase when the Company builds a commercial organisation and increases efforts to expand the Company’s customer base.

Research and development expenses

Research and development expenses primarily include costs associated with the development of the Company's instrument and associated consumables including relted protocols. These expenses also include intellectual property prosecution and maintenance costs, and quality assurance expenses. The expenses primarily relates to salaries, benefits, outside product design and consulting services, laboratory supplies and equipment, costs of consumables and materials used in house for product development, and allocated facility and information technology costs. Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Notes to the Financial Statements

10 Accounting Policies (continued)

General and administrative expenses

The Company's general and administrative expenses include expenses related to the board of directors, executive management, accounting and finance, information technology, legal, facilities, human resource, administrative and investor related activities. These expenses consist primarily of salaries, benefits, independent auditor costs, legal and consulting fees, travel, and insurance costs.

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.

Government grants
Government grants are recognised as other income when there is reasonable assurance that the Company will comply with the conditions attached to them and receive the grants. Government grants for expenses incurred are recognised as other income over the periods in which Samplix recognises as expenses the related costs for which the grants are intended to compensate. Government grants for the purchasing of property, plant and equipment are recognized as deferred income over the useful lives of the related assets.

Financial income and expenses

Financial income and expenses comprise interest, financial expenses in respect of finance leases, realised and unrealised exchange adjustments, price adjustment of securities, amortisation of mortgage loans as well as extra payments and repayment under the on account taxation scheme.

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.

Balance Sheet

Intangible assets

Development projects, patents and licences

Costs of acquired development projects and intellectual property comprise salaries, amortisation and other expenses directly or indirectly attributable to such assets.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enter-

Notes to the Financial Statements

10 Accounting Policies (continued)

prise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount. An amount corresponding to the recognised development costs is allocated to the equity item “Reserve for development costs”. The reserve comprises only development costs recognised in financial years beginning on or after 1 January 2016. The reserve is reduced by amortisation of and impairment losses on the development projects on a continuing basis.

As of the date of completion, capitalised development costs are amortised on a straight line basis over the period of the expected economic benefit from the assets. The amortisation period for acquired intellectual property rights is equal to the patent term and is 5 years for other assets.

Patents and licences are measured at cost less accumulated amortisation and less any accumulated impairment losses or at a lower value in use.

Patents are amortised over the remaining patent period or a shorter useful life. The amortisation period is years. Software licences are amortised over the period of the agreement.

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:

Company instruments placed under rental reagent agreements	2 - 5	years
Other fixtures and fittings, tools and equipment	3 - 5	years
Leasehold improvements	3	years

Depreciation period and residual value are reassessed annually.

Notes to the Financial Statements

10 Accounting Policies (continued)

Impairment of fixed assets

The carrying amounts of intangible assets and 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, the asset is written down to its lower recoverable amount.

Fixed asset investments

Fixed asset investments consist of deposits.

Inventories

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

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

The cost of goods for resale equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable.

Prepayments

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

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, including the tax base of tax loss carry-forwards, 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

Notes to the Financial Statements

10 Accounting Policies (continued)

deferred tax liabilities within the same legal tax entity.

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

Current tax receivables and liabilities

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

Financial debts

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

Deferred income

Deferred income comprises payments received in respect of income in subsequent years. Deferred income primarily relates to government grants prepayments.