
Bactolife A/S

Rønnegade 8, 2, DK-2100 Copenhagen

Annual Report for 2022

CVR No. 38 87 90 73

The Annual Report was
presented and adopted
at the Annual General
Meeting of the
company
on 29/6 2023

Morten Jensen
Chairman of the
general meeting



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Management's statement

The Executive Board and Board of Directors have today considered and adopted the Financial Statements of Bactolife A/S for the financial year 1 January - 31 December 2022.

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 2022 of the Company and of the results of the Company operations for 2022.

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

We recommend that the Financial Statements be adopted at the Annual General Meeting.

Copenhagen, 29 June 2023

Executive Board

Sebastian Søderberg
CEO

Board of Directors

Jørgen Rugholm Jensen
Chairman

Per Falholt

Morten Aleksandr Engel

Independent Auditor's report

To the shareholder of Bactolife A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2022 and of the results of the Company's operations for the financial year 1 January - 31 December 2022 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Bactolife A/S for the financial year 1 January - 31 December 2022, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for Opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

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

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

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

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

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.

Independent Auditor's report

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.

Copenhagen, 29 June 2023

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Torben Jensen

State Authorised Public Accountant

mne18651

André Nielsen

State Authorised Public Accountant

mne46624

Company information

The Company	Bactolife A/S Rønnegade 8, 2 DK-2100 Copenhagen CVR No: 38 87 90 73 Financial period: 1 January - 31 December Municipality of reg. office: Copenhagen
Board of Directors	Jørgen Rugholm Jensen, chairman Per Falholt Morten Aleksandr Engel
Executive Board	Sebastian Søderberg
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 2900 Hellerup

Management's review

Key activities

Bactolife is a fast-growing bioindustrial company that develops a new class of ingredients called Binding Proteins. The company is focusing on gastrointestinal conditions in humans and animals, hereunder Elderly, Mothers & Children, Immunocompromised, and Monogastric Livestock.

Letter from the Chairman and CEO, 2022

Groundbreaking Innovation

2022 was a landmark year for Bactolife. Our pipeline project, Ablacto+, demonstrated significant in vivo performance in +5000 piglets across Spain, Denmark, and the US. This is the most significant data point validating the efficacy and potential of our Binding Proteins. Secondly, Bactolife received an investment from the Bill & Melinda Gates Foundation of USDm 5 followed by a grant of USDm 2 dedicated to our platform of Binding Proteins for Mothers & Children. These investments will not only assist in the acceleration of Bactolife's manufacturing platform and the further development of new health areas; they also signify the importance and relevance of our technology platform.

Bactolife ended the year in a strong position with four projects, three for humans and one for animals, in pre-commercialization stage and market launch potential within 3-4 years.

We invested mDKK 19 in R&D

These investments were primarily targeted towards our near to market priority projects, more specifically for Piglets (Ablacto+), Elderly (CD Balance) and our Mothers and Children platform. These investments were directed towards in vitro work and manufacturing development.

Filing of 3 new patents

Bactolife filed three new patent applications throughout 2022, two applications based on novel lead molecules from the spearheading projects and one application covering a broader technology platform. The patent applications are not yet in the public domain.

Employee growth

Bactolife grew from 15 FTEs at the beginning of 2022 to 28 FTEs by the end of the year. Most of these new hires were within R&D and platform development. The 28 FTEs consist of 10 nationalities and 12 are not from Denmark. Bactolife's daily leadership team consists of 6 FTEs, with equal gender diversity.

ESG strategy Bactolife

Environmental Impact

Reduced carbon emissions through efficient animal agriculture. Animals suffering from gut dysbiosis, and inflammation do not have an efficient feed conversion, leading to undigested protein from the animal feed being excreted, creating environmental pollution and increased CO2 emissions. Based on numbers from the Danish Pig Research Center, SEGES, a piglet suffering from diarrhea will on average emit 1.41 g extra nitrogen, from undigested feed protein to the environment. Based on an annual production of 1 billion pigs worldwide, the total environmental impact of diarrhea in piglets amount to ~5,000 tons CO2 equivalents. Bactolife's Ablacto+ project will launch in 2025 and has the potential to reach +10% of pigs worldwide, thereby achieving a reduction of ~500 tons CO2 equivalents.

Reducing antibiotic use and anti-microbial resistance ("AMR") in a One Health perspective. Antibiotics are vastly used across livestock production and in the treatment of humans. Reducing the amount of antibiotics used in animals will significantly lower the environmental burden of AMR that affects humans daily. Moreover, Bactolife's binding proteins will help reduce the risk of gastrointestinal infections in humans, thereby reducing the need for antibiotic treatment. Specifically, when extrapolating based on numbers for antibiotic usage in Danish herds (DANMAP), globally 1,000 tons of antibiotics are used in industrial pig production. This is a conservative estimate, as many countries have more liberal legislation, and growth promoters, which are banned in EU, are still used in many countries. Antibiotic use in animal production affects us all, as microbes and resistance genes are shared and spread via animals, humans, and the environment alike. Preliminary result from trials in +5,000 piglets, in real farms, with Ablacto+ show a reduction in the need for antibiotic intervention of 30%. Assuming a 10% global market penetration, this will amount to a reduction of 33 tons of annual antibiotic use.

Management's review

Social impact

Increasing global child health, nutrition, and growth. Childhood malnutrition accounts for approximately 45% of the cases of “under-five” mortality and has been reported to be associated strongly with several acute illnesses and severe damage to several physiological activities, including restricted mental growth and development later in life, cardiovascular and chronic respiratory illnesses, and compromised host immunity. Stunting or linear growth faltering is the most prevalent form of childhood malnutrition and affects an estimated 149 million children worldwide. The first 2 years of life are a critical window for long- term growth and development, and stunting has been reported to exhibit extremely serious and adverse consequences in children younger 2 years of age. Repeated exposure to fecal enteropathogens in early life and subsequent development of environmental enteric dysfunction (EED) are the primary factors attributing to linear growth failure in the early years of life. Bactolife’s project on “Mothers and Children” aim to develop Binding Proteins, which are accessible in LMICs, in support of improving child health, for improved growth and health outcomes later in life. This will support a reduced use of antibiotics, but especially likelihood of better life projections for this at-risk group.

Governance

One of Bactolife’s key values is “Integrity”, this is reflected across our organization, and deeply rooted in the leadership team, which work to ensure a high degree of transparency and openness across collaborations – internally and externally. Furthermore, both the Bactolife leadership team and Board, continuously work to follow all applicable laws, and represent solid and reliable and communication in our projects. We value diversity having representatives from different cultures (+10 nationalities), gender, age, and ethnicity. We have a flat company structure and expect each other to be honest and transparent in communication and when providing feedback – in the best interest of Bactolife, our colleagues, partners, and customers.

Outlook 2023

We will continue to advance Bactolife’s projects and technology platform in 2023. In June 2023, we successfully closed a financing round raising EURm 25.5 that will secure our development until we are ready to launch the first series of products, expected during 2026. Bactolife is backed by resourceful and competent investors that will support and guide Bactolife towards initial product launch and subsequent ramp-up.

Despite risks and market uncertainty, we remain confident that our combined efforts and constant drive to delivering on our targets will provide us with a strong market position with leading product offerings and commercially competitive price points. This will not be possible without our dedicated employees who put in an enormous effort to constantly improve Bactolife, advance our pipeline projects and refine our technology’s offerings to enable worldwide health.

Subsequent events

Besides the funding round mentioned in note 1 no events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income statement 1 January - 31 December

	Note	2022 DKK	2021 DKK
Revenue		333,298	1,483,885
Other operating income		1,996,686	1,218,031
Other external expenses		-11,446,570	-4,777,371
Gross loss		-9,116,586	-2,075,455
Staff expenses	2	-19,094,198	-8,537,905
Depreciation and impairment losses of property, plant and equipment		-598,927	-77,276
Profit/loss before financial income and expenses		-28,809,711	-10,690,636
Financial income		1,141,594	225
Financial expenses	3	-4,177,061	-126,249
Profit/loss before tax		-31,845,178	-10,816,660
Tax on profit/loss for the year	4	4,277,038	2,592,487
Net profit/loss for the year		-27,568,140	-8,224,173

Distribution of profit

	2022 DKK	2021 DKK
Proposed distribution of profit		
Retained earnings	-27,568,140	-8,224,173
	-27,568,140	-8,224,173

Balance sheet 31 December

Assets

	Note	2022 DKK	2021 DKK
Plant and machinery		4,579,941	3,897,096
Other fixtures and fittings, tools and equipment		816,312	401,578
Leasehold improvements		1,094,374	1,004,549
Property, plant and equipment	5	6,490,627	5,303,223
Fixed assets		6,490,627	5,303,223
Raw materials and consumables		223,450	448,870
Inventories		223,450	448,870
Trade receivables		0	782,372
Other receivables		3,567,688	3,558,019
Corporation tax		4,277,242	2,592,487
Prepayments		839,726	643,188
Receivables		8,684,656	7,576,066
Cash at bank and in hand	6	68,939,722	44,184,890
Current assets		77,847,828	52,209,826
Assets		84,338,455	57,513,049

Balance sheet 31 December

Liabilities and equity

	Note	2022 DKK	2021 DKK
Share capital		400,001	390,780
Share premium account		64,833,162	64,833,162
Retained earnings		-41,344,352	-13,766,991
Equity		23,888,811	51,456,951
Other provisions		402,000	342,001
Provisions		402,000	342,001
Convertible and profit-yielding instruments of debt		38,857,121	0
Long-term debt	7	38,857,121	0
Trade payables		2,798,899	3,046,759
Other payables		2,943,149	2,167,538
Deferred income		15,448,475	499,800
Short-term debt		21,190,523	5,714,097
Debt		60,047,644	5,714,097
Liabilities and equity		84,338,455	57,513,049
Going concern	1		
Contingent assets, liabilities and other financial obligations	8		
Subsequent events	9		
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Statement of changes in equity

	Share capital	Share premium account	Retained earnings	Total
	DKK	DKK	DKK	DKK
Equity at 1 January	390,780	64,833,162	-13,766,991	51,456,951
Bonus shares	9,221	0	-9,221	0
Net profit/loss for the year	0	0	-27,568,140	-27,568,140
Equity at 31 December	400,001	64,833,162	-41,344,352	23,888,811

The 27 May 2022 the share capital was increased by a nominal amount of DKK 9,221, from a nominal amount of DKK 390,780 to a nominal amount of DKK 400,001. The shares were issued as bonus shares. In continuation of this the company was converted into a Danish public limited company (A/S).

The total share capital of DKK 400,001 hereafter consists of 256,848 A-shares and 143,153 B-shares. The B-shares have special rights.

31 December 2022 the company had granted 3,135,892 warrants to employees.

Notes to the Financial Statements

1. Going concern

The Company has for the financial year a negative result of DKK 28 million and has cash and cash equivalents of DKK 69 million and an equity of DKK 24 million as of 31 December 2022.

In 2022, the Company succeeded in securing both a USD 5 million convertible loan and a USD 2 million grant from the Bill & Melinda Gates Foundation.

In October 2022, a funding round raising EUR 25,5 million was initiated and by 16 June 2023, the legally binding investment agreements was signed subject to Foreign Direct Investment (FDI) approval. It is Management expectation that the FDI approval will be granted within 8 weeks. If the FDI approval is not granted Management has plans for alternative funding.

Based on the cash position and the business plans, it is Management's assessment that there is no significant uncertainty related to going concern.

	<u>2022</u>	<u>2021</u>
	DKK	DKK
2. Staff Expenses		
Wages and salaries	18,926,556	8,460,270
Other social security expenses	16,551	39,306
Other staff expenses	151,091	38,329
	<u>19,094,198</u>	<u>8,537,905</u>
Average number of employees	<u>22</u>	<u>8</u>

At the end of December 2022 Bactolife had 28 employees (December 2021: 12 employees).

	<u>2022</u>	<u>2021</u>
	DKK	DKK
3. Financial expenses		
Interest expense	2,827,181	123,907
Other financial expenses	1,349,880	2,342
	<u>4,177,061</u>	<u>126,249</u>

Notes to the Financial Statements

	2022	2021
	DKK	DKK
4. Income tax expense		
Current tax for the year	-4,277,038	-2,592,487
	<u>-4,277,038</u>	<u>-2,592,487</u>

Current tax for the year is related to certain research and development expenses incurred by Bactolife that are refundable according to the Danish tax legislation.

The value of tax assets related to tax loss carry forward etc. of DKK 3,932 thousands (2021: DKK 829 thousands) is not recognized as an asset as the use of the tax loss carry-forward is highly uncertain.

5. Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements
	DKK	DKK	DKK
Cost at 1 January	3,955,398	420,552	1,004,549
Additions for the year	1,054,902	594,339	137,090
Cost at 31 December	<u>5,010,300</u>	<u>1,014,891</u>	<u>1,141,639</u>
Impairment losses and depreciation at 1 January	58,302	18,974	0
Depreciation for the year	372,057	179,605	47,265
Impairment losses and depreciation at 31 December	<u>430,359</u>	<u>198,579</u>	<u>47,265</u>
Carrying amount at 31 December	<u>4,579,941</u>	<u>816,312</u>	<u>1,094,374</u>

	2022	2021
	DKK	DKK
6. Cash at bank and in hand		
Other cash at bank and in hand	68,939,722	44,184,890
	<u>68,939,722</u>	<u>44,184,890</u>

A total bank amount of DKK 15,206 thousands is restricted by grants foundation's to specific research projects.

Notes to the Financial Statements

7. 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:

	2022	2021
	DKK	DKK
Convertible and profit-yielding instruments of debt		
After 5 years	0	0
Between 1 and 5 years	38,857,121	0
Long-term part	38,857,121	0
Within 1 year	0	0
	<u>38,857,121</u>	<u>0</u>

Convertible and profit-yielding instruments of debt

The company have in 2022 issued a convertible note of USD 5,000 thousands (corresponding to DKK 35,977 thousands) and based on this recognised; interest of DKK 2,660 thousands as financial expense; fair value adjustment of embedded derivatives of DKK 1,347 thousands recognised as other financial cost and exchange rate adjustments of DKK 1,127 thousands recognised as financial income. At year end 2022 the total amount recognised as convertible note is DKK 38,857 thousands. The calculated value of embedded derivatives included in the convertible amount to DKK 13,426 thousands (2021: DKK 0)

Significant loan terms related to the Company's loan

- Issued 4 August 2022 with a total principal amount of USD 5 million.
- Maturity 4 August 2024
- Interest coupon 6.0 % p.a. accruing over the term of the loan.
- Loan currency USD
- Automatic conversion of the loan in case of an investment with a proceed above USD 20 million (qualified financing). The conversion price is equal to the price per share issued to the new investors in the qualified financing with accretive five percent discount rate per every calendar quarter the loan remains outstanding (maximized to accumulative 20 percent discount).
- Lenders maturity date conversion option in case of no qualified financing event before maturity. The conversion price is equal to the quotient of dividing USD 35 million (valuation Cap) by the fully-diluted capitalization.

Significant assumptions related to the valuation of the embedded derivatives 31 December 2022

- Discount rate of 31 %.
- Probability of conversion before maturity of 90 %.

Sensitivity to changes in fair value of the embedded derivative 31 December 2022

If the discount rate is increased with 5 % the debt value of the embedded derivatives is increased with DKK 850 thousands.

If the probability of conversion before maturity is decreased with 10 % points the debt value of the embedded

Notes to the Financial Statements

derivatives is decreased by DKK 836 thousands.

8. Contingent assets, liabilities and other financial obligations

Rental and lease obligations

The Company has one lease contract for rent of office desks and laboratory which is non-cancellable until 2027. The total future lease payments for the non-cancellable lease period are DKK 15,3 million.

9. Subsequent events

Besides the funding mentioned in note 1 no events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Notes to the Financial Statements

10. Accounting policies

The Annual Report of Bactolife A/S for 2022 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 2022 are presented in DKK.

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.

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.

Share based payment

The Company has granted warrants to employees. The warrants are equity settled programs which Management has chosen not to recognize in the Financial Statements.

Income statement

Net sales

Revenue consists of fees related to joint development agreements with partners.

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

Revenue is measured at the consideration received and is recognised exclusive of VAT.

Other external expenses

Other external expenses comprise expenses for premises, sales as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as salary dependent expenses.

Notes to the Financial Statements

Amortisation, depreciation and impairment losses

Depreciation comprise depreciation 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 received grants.

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.

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:

Plant and machinery	10-20 years
Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	15 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 depreciation.

Inventories

Inventory consist of raw materials used for the research and development activities.

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

Receivables

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

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance, acquisition of property, plant and equipment etc.

Notes to the Financial Statements

Provisions

Other provisions relates to estimated decommissioning obligations for leased premises.

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.

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.

Convertible and profit-yielding instruments of debt

Loan agreements under which the company does not have an unconditional right to avoid repayment in cash or where the Company has an obligation to deliver a variable number of its own equity instruments are classified as financial liabilities. Financial liabilities are initially measured at fair value which is generally equal to the proceeds obtained. Non closely related embedded derivatives are separated from the host liability contract and measured at fair value through the income statement. The difference between the fair value of the financial liability and the initial fair value of the non closely related embedded derivatives is considered the initial carrying amount of the liability host contract. Transaction costs are allocated proportionately between the non closely related embedded derivatives and the host liability. The difference between the initial amount allocated to the liability host contract less transaction costs and the principal is amortised under the effective interest method as part of interest expense over the term of the loan.

The Company has a loan with the following non closely related embedded derivatives: automatic conversion with accretive five percent discount rate per every calendar quarter the loan remains outstanding (maximized to accumulative 20 percent discount) and a maturity date conversion option for the lender where the conversion prices is subject to a valuation cap. See further details in the note 7.

Fair value of the embedded derivatives is determined based on option pricing models and assessment of the likelihood of conversion in a given quarter before maturity or at maturity. None of the significant inputs applied are observable and consequently represent level 3 measurements in the fair value hierarchy. The assumptions to which the fair value of the embedded derivatives is most sensitive to is stated in note 7 Long-term debt. Reasonably possible alternative assumptions could have resulted in significantly different fair values.

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.