
Scantox A/S

Hestehavevej 36A, DK-4623 Lille Skensved

Annual Report for 1 January - 31 December 2020

CVR No 83 09 04 13

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
22/6 2021

Jens Bager
Chairman of the General
Meeting



pwc

Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Management's Review	
Company Information	5
Financial Highlights	6
Management's Review	7
Financial Statements	
Income Statement 1 January - 31 December	9
Balance Sheet 31 December	10
Statement of Changes in Equity	12
Notes to the Financial Statements	13

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Scantox A/S 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.

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

Lille Skensved, 22 June 2021

Executive Board

Jeanet Løgsted Nielsen
CEO

Board of Directors

Jens Bager
Chairman

John Michael Barberich

Nicholas Povl Zilstorff Hooge

Karsten Lindhardt

Dorthe Metzker

Independent Auditor's Report

To the Shareholder of Scantox A/S

Opinion

We have audited the Financial Statements of Scantox A/S 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 are 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 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.

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.

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

Independent Auditor's Report

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.

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 re-

Independent Auditor's Report

quired 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.

Hellerup, 22 June 2021

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Kaare von Cappeln

statsautoriseret revisor

mne11629

Company Information

The Company

Scantox A/S
Hestehavevej 36A
DK-4623 Lille Skensved

CVR No: 83 09 04 13
Financial period: 1 January - 31 December
Municipality of reg. office: Køge

Board of Directors

Jens Bager, Chairman
John Michael Barberich
Nicholas Povl Zilstorff Hooge
Karsten Lindhardt
Dorthe Metzker, Staff Representative

Executive Board

Jeanet Løgsted Nielsen

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	83.380	108.809	117.598	91.110	93.612
Operating profit/loss	-26.784	-3.941	10.360	1.575	-511
Profit/loss before financial income and expenses	-26.784	-3.941	10.360	1.575	-511
Net financials	-1.268	-965	-1.317	-1.262	-576
Net profit/loss for the year	-31.075	-3.848	10.973	313	-1.087
Balance sheet					
Balance sheet total	71.361	93.257	97.257	90.006	90.175
Equity	-7.280	23.795	27.643	16.670	16.357
Investment in property, plant and equipment	-2.859	-2.934	-4.429	-1.626	-1.824
Number of employees	116	128	124	120	131
Ratios					
Gross margin	68,9%	63,6%	65,5%	65,8%	66,7%
Profit margin	-32,1%	-3,6%	8,8%	1,7%	-0,5%
Return on assets	-37,5%	-4,2%	10,7%	1,7%	-0,6%
Solvency ratio	-10,2%	25,5%	28,4%	18,5%	18,1%
Return on equity	-376,3%	-15,0%	49,5%	1,9%	-13,3%

Management's Review

Business Review

Scantox A/S (former Charles River Laboratories Copenhagen A/S) was founded in 1977 and is a market-leading GLP ("Good Laboratory Practice") accredited CRO in Scandinavia, providing pre-clinical research services, including regulatory in-vivo toxicology studies, that are critical to any drug development process. Scantox plays a vital role in the Nordic pharma and biotech community, where the Company has established solid relationships and enjoys a broad and loyal customer base, leveraging its strong track-record and more than 40 years of scientific experience.

Development in the year

In 2020, the Company's revenue amounted to DKK 83.380k (2019: DKK 108.809k). The income statement shows a loss of DKK -31,075,000, (2019: DKK -3,825k) for the year, and the balance sheet at 31 December 2020 shows negative equity of DKK 7,280k.

In June 2020, the Company's parent announced that the Company would for strategic reason be closed down. Consequently, the Company commenced planning for the completion of ongoing studies and subsequent closure of the research operations in Denmark, aiming at in July 2021 to be closed. This event had a large negative effect on the business, the employees and the financials during the second half of 2020. Special items related to severance and retention regarding dismissed employees amounts to DKK 14,106k.

Subsequent events

In January 2021, Management succeeded with the plan to find new ownership for the Company. With closing date 20 January 2021, the Company's new ultimate owner is Impilo AB (Sweden), which is an investment company focused on investments in the healthcare and health related sector.

With this agreement, the Company resumed the research operations and re-employed many of the laid-off employees. Management is unchanged. A new board of directors has been elected.

2021 saw a capital increase of DKK 19,280k by conversion of debt. Furthermore, to secure the Company's capital base in 2021 another mortgage loan was obtained with proceeds of DKK 10,773k. Moreover, the Company's new Parent Company, Scantox Danmark ApS, has confirmed that it is the intention to provide financial support to the Company within at least the next 12 months. On this basis, Management assesses the Company's capital resources sufficient.

Capital resources

Management assesses that the Company's capital resources is sufficient.

Management's Review

Expectations for the year ahead

Following the sale of the Company, Management and Impilo have developed a business plan that will generate positive financial results. This business plan is based on getting Scantox A/S back on track within app. one year and then expand in the market both with organic and inorganic growth. The following years are expected to generate positive financial results.

Uncertainty relating to recognition and measurement

Revenue recognition

The Company's contracts with customers bind the Company to perform specific studies, usually at a fixed price. Revenue is recognised with the production method using estimates of the value produced in the fiscal period. The revenue estimates inherently pose some measurement uncertainty, though they are subject to extensive control and assessment.

Deferred tax asset

The Company recognises deferred tax assets, including the tax base of tax loss carry-forward if Management assesses that these tax assets can be offset against positive taxable income within a foreseeable future. This assessment is made on an ongoing basis and is based on budgets and business plans for the coming years, including planned commercial initiatives.

At 31 December 2020, the Company had deducted the tax assets with DKK 3,023k to zero due to the uncertainty in relation to the usage of this tax asset.

Income Statement 1 January - 31 December

	<u>Note</u>	<u>2020</u> TDKK	<u>2019</u> TDKK
Revenue		83.380	108.809
Expenses for raw materials and consumables		-19.802	-24.092
Other external expenses		-6.148	-15.529
Gross profit/loss		57.430	69.188
Staff expenses	4	-76.585	-66.487
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	5	-7.629	-6.642
Profit/loss before financial income and expenses		-26.784	-3.941
Financial expenses	6	-1.268	-965
Profit/loss before tax		-28.052	-4.906
Tax on profit/loss for the year	7	-3.023	1.058
Net profit/loss for the year		-31.075	-3.848

Balance Sheet 31 December

Assets

	Note	2020 TDKK	2019 TDKK
Acquired software		660	1.045
Intangible assets	8	660	1.045
Land and buildings		43.412	47.102
Other fixtures and fittings, tools and equipment		7.056	7.748
Property, plant and equipment	9	50.468	54.850
Fixed assets		51.128	55.895
Inventories	10	0	849
Trade receivables		5.113	17.309
Contract work in progress	11	943	4.448
Receivables from group enterprises		2.670	7.759
Other receivables		254	642
Deferred tax asset	15	0	3.023
Prepayments	12	253	2.809
Receivables		9.233	35.990
Cash at bank and in hand		11.000	523
Currents assets		20.233	37.362
Assets		71.361	93.257

Balance Sheet 31 December

Liabilities and equity

	Note	2020 TDKK	2019 TDKK
Share capital	13	12.600	12.600
Retained earnings		-19.880	11.195
Equity		-7.280	23.795
Mortgage loans		15.815	18.612
Lease obligations		173	369
Payables to group enterprises		19.250	8.858
Other payables		5.241	2.034
Long-term debt	16	40.479	29.873
Mortgage loans	16	1.449	0
Credit institutions		1.426	1.334
Lease obligations	16	222	222
Trade payables		1.424	4.361
Contract work in progress, liabilities	11	6.006	9.908
Payables to group enterprises	16	2.274	11.869
Other payables	16	25.361	11.895
Short-term debt		38.162	39.589
Debt		78.641	69.462
Liabilities and equity		71.361	93.257
Going concern	1		
Special items	2		
Subsequent events	3		
Distribution of profit	14		
Contingent assets, liabilities and other financial obligations	17		
Related parties	18		
Accounting Policies	19		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 January	12.600	11.195	23.795
Net profit/loss for the year	0	-31.075	-31.075
Equity at 31 December	12.600	-19.880	-7.280

Notes to the Financial Statements

1 Going concern

The Company has in 2021 made a capital increase at DKK 19,280k by converting a loan to equity in the Company. To insure the Company's capital base in 2021 the Company has also raised a mortgage loan with a proceeds at DKK 10,773k. Furthermore, the parent Company Scantox Denmark ApS has confirmed that it is the current intention to provide financial support to the Company for at least the next 12 months. Based on these actions the Management assesses that the Company's capital resources is sufficient.

2 Special items

The result in 2020 was affected by special items related to severance and retention regarding dismissed employees, which in total amounts to DKK 14,106k.

3 Subsequent events

At 19 January 2021 the Company has been sold to Scantox Denmark ApS. Based on the new ownership the Company has been able to make agreements with a part of the dismissed employees so they can continue their employment in the Company. Due to this, the Company will reduce their severance cost in 2021. The total reduction of costs amount to DKK 5 million in 2021 compared to the recognized provision in the Financial Statement at 31 December 2020.

4 Staff expenses

	2020 TDKK	2019 TDKK
Wages and salaries	68.035	58.231
Pensions	7.689	7.944
Other social security expenses	263	166
Other staff expenses	598	146
	76.585	66.487
Average number of employees	116	128

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

Notes to the Financial Statements

	2020 <u>TDKK</u>	2019 <u>TDKK</u>
5 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		
Amortisation of intangible assets	360	465
Depreciation of property, plant and equipment	<u>7.269</u>	<u>6.177</u>
	<u>7.629</u>	<u>6.642</u>
6 Financial expenses		
Interest to group enterprises	389	175
Other financial expenses	509	130
Exchange loss	<u>370</u>	<u>660</u>
	<u>1.268</u>	<u>965</u>
7 Tax on profit/loss for the year		
Current tax for the year	0	0
Deferred tax for the year	<u>3.023</u>	<u>-1.058</u>
	<u>3.023</u>	<u>-1.058</u>
8 Intangible assets		Acquired software <u>TDKK</u>
Cost at 1 January		<u>7.164</u>
Cost at 31 December		<u>7.164</u>
Impairment losses and amortisation at 1 January		6.119
Amortisation for the year		<u>385</u>
Impairment losses and amortisation at 31 December		<u>6.504</u>
Carrying amount at 31 December		<u>660</u>

Notes to the Financial Statements

9 Property, plant and equipment

	Land and buildings	Other fixtures and fittings, tools and equipment
	TDKK	TDKK
Cost at 1 January	129.203	48.197
Additions for the year	431	2.454
Cost at 31 December	<u>129.634</u>	<u>50.651</u>
Impairment losses and depreciation at 1 January	82.100	40.448
Depreciation for the year	4.122	3.147
Impairment losses and depreciation at 31 December	<u>86.222</u>	<u>43.595</u>
Carrying amount at 31 December	<u>43.412</u>	<u>7.056</u>

	2020	2019
	TDKK	TDKK
Raw materials and consumables	0	849
	<u>0</u>	<u>849</u>

11 Contract work in progress

Selling price of work in progress	-5.063	144.463
Payments received on account	0	-149.923
	<u>-5.063</u>	<u>-5.460</u>
Recognised in the balance sheet as follows:		
Contract work in progress recognised in assets	943	4.448
Prepayments received recognised in debt	-6.006	-9.908
	<u>-5.063</u>	<u>-5.460</u>

12 Prepayments

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

Notes to the Financial Statements

13 Share capital

There have been no changes in the share capital during the last 5 years.

	<u>2020</u> TDKK	<u>2019</u> TDKK
14 Distribution of profit		
Retained earnings	-31.075	-3.848
	<u>-31.075</u>	<u>-3.848</u>
15 Provision for deferred tax		
Provision for deferred tax at 1 January	-3.023	0
Amounts recognised in the income statement for the year	3.023	-1.058
Amounts recognised in equity for the year	0	-1.965
Provision for deferred tax at 31 December	<u>0</u>	<u>-3.023</u>

Notes to the Financial Statements

16 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:

	2020 TDKK	2019 TDKK
Mortgage loans		
After 5 years	11.097	12.977
Between 1 and 5 years	4.718	5.635
Long-term part	15.815	18.612
Within 1 year	1.449	0
	17.264	18.612
Lease obligations		
Between 1 and 5 years	173	369
Long-term part	173	369
Within 1 year	222	222
	395	591
Payables to group enterprises		
Between 1 and 5 years	19.250	8.858
Long-term part	19.250	8.858
Other short-term debt to group enterprises	2.274	11.869
	21.524	20.727
Other payables		
Between 1 and 5 years	5.241	2.034
Long-term part	5.241	2.034
Other short-term payables	25.361	11.895
	30.602	13.929

Notes to the Financial Statements

	2020 TDKK	2019 TDKK
17 Contingent assets, liabilities and other financial obligations		
Charges and security		
The following assets have been placed as security with mortgage credit institutes:		
As security for mortgage debt has been put up as security in buildings:	34.200	34.200
Negative pledge comprising movables, unsecured claims, inventories, operating equipment, intangible rights and charges on claims as security for the balances with Danske Bank:	15.000	15.000

18 Related parties

Basis

Controlling interest

CRL Group France SAS

Rue de Pacy 27930 Miseray, France

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act.

Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

The ultimate parent company at 31 December 2020 is Charles River Laboratories International, Inc. a company incorporated in the United States of America. Charles River Laboratories International, Inc. is the largest group of which the Company is a member and the smallest group annual report and financial statements are prepared. Copies of the group annual report and financial statements can be obtained from Charles River Laboratories Inc. 251 Ballardvale Street, Wilmington, Massachusetts, USA. The ultimate controlling party is considered to be Charles River Laboratories International Inc. which is listed on the New York Stock Exchange.

At 19 January 2021 the Company has been taken over by Scantox Denmark ApS.

Notes to the Financial Statements

18 Related parties (continued)

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company

<u>Name</u>	<u>Place of registered office</u>
Charles River Laboratories International Inc.	USA
Charles River Laboratories Inc.	USA

The Group Annual Report of Charles River Laboratories Inc. may be obtained at the following address:

251 Ballardvale Street, Wilmington, Massachusetts, USA

Notes to the Financial Statements

19 Accounting Policies

The Annual Report of Scantox A/S for 2020 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized 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 Charles River Laboratories 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.

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. 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.

Notes to the Financial Statements

19 Accounting Policies (continued)

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

Income Statement

Revenue

Contract work in progress (construction contracts) is recognised at the rate of completion, which means that revenue equals the selling price of the work completed for the year (percentage-of-completion method). This method is applied when total revenues and expenses in respect of the contract 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 contract.

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 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 intangible assets and property, plant and equipment.

Notes to the Financial Statements

19 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.

Balance Sheet

Intangible assets

Software licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Licences are amortised over the licence period; however not exceeding 3-10 years.

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.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction.

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:

Land and Buildings	20-30 years
Plant and machinery	3-15 years
Other fixtures	3-15 years

The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

Notes to the Financial Statements

19 Accounting Policies (continued)

Impairment of fixed assets

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

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.

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.

Contract work in progress

Contract work in progress regarding service is measured at selling price of the work performed calculated on the basis of the stage of completion. The stage of completion is measured by the proportion that the contract expenses incurred to date bear to the estimated total contract expenses. Where it is probable that total contract expenses will exceed total revenues from a contract, the expected loss is recognised as an expense in the income statement.

Where the selling price cannot be measured reliably, the selling price is measured at the lower of expenses incurred and net realisable value.

Payments received on account are set off against the selling price. The individual contracts are classified as receivables when the net selling price is positive and as liabilities when the net selling price is negative.

Expenses relating to sales work and the winning of contracts are recognised in the income statement as incurred.

Prepayments

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

Notes to the Financial Statements

19 Accounting Policies (continued)

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.

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

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

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

Lease liabilities

Lease liabilities are measured at the net present value of the remaining lease payments including any guaranteed residual value, if any, based on the interest rate implicit in the lease.

Notes to the Financial Statements

19 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

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