AX V ESB Holding III ApS

Struenseegade 9, 2.
2200 København N
CVR No. 38784315

Annual report 2020

The Annual General Meeting adopted the annual report on 01.07.2021

Jesper Ahlmann Funding Andersen
Chairman of the General Meeting

Contents

Entity details

Entity

AX V ESB Holding III ApS
Struenseegade 9, 2.
2200 København N

Business Registration No.: 38784315
Registered office: København
Financial year: 01.01.2020 - 31.12.2020

Board of Directors

Lars Thomas Blomqvist, Chairman
Peter Nyegaard, Board member
Asbjørn Mosgaard Hyldgaard, Board member

Executive Board

Jesper Frydensberg Rasmussen, Director

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
2300 Copenhagen S

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of AX V ESB Holding III ApS for the financial year 01.01.2020 - 31.12.2020

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2020 and of the results of their operations and the consolidated cash flows for the financial year 01.01.2020 - 31.12.2020.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 01.07.2021

Executive Board

Jesper Frydensberg Rasmussen
Director

Board of Directors

Lars Thomas Blomqvist
Chairman

Peter Nyegaard
Board member

Asbjørn Mosgaard Hyldgaard
Board member

Independent auditor's report

To the shareholders of AX V ESB Holding III ApS

Opinion

We have audited the consolidated financial statements and the parent financial statements of AX V ESB Holding III ApS for the financial year 01.01.2020 - 31.12.2020, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2020 and of the results of their operations and the consolidated cash flows for the financial year 01.01.2020 - 31.12.2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 consolidated financial statements and the parent financial statements" section of this auditor’s report. We are independent of the Group in accordance with the International Ethics Standards Board of 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 consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent 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 consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 consolidated financial statements and parent 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 consolidated financial statements and the parent 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 Group's and the Entity’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 consolidated financial statements and the parent 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 Group's and the Entity’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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

- Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 01.07.2021

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Bill Haudal Pedersen
State Authorised Public Accountant
Identification No (MNE) mne30131

Henrik Wolff Mikkelsen
State Authorised Public Accountant
Identification No (MNE) mne33747

Management commentary

Primary activities

The Group's main activities are within the fertility industry and related production.

Founded in 2004, European Sperm Bank ("ESB") is one of the leading sperm banks in the world, providing fertility clinics all over the world with donor semen of the highest quality. The main product offering consists of a wide selection of high-quality donor semen from both open and anonymous sperm donors, helping heterosexual couples, single women and lesbian couples in +100 countries. The end users are reached through two channels, i.e. the products are either sold to a fertility clinic (B2B) or directly to end customers via the company website (B2C), in which case the donor semen is delivered to a clinic of choice where the fertility treatment is carried out.

ESB is headquartered in Copenhagen with c. 90 employees and currently operates out of 6 locations, including 3 sites in Copenhagen (DK), 1 site in Aarhus (DK), 1 site in London (UK) and 1 site in Hamburg (DE).

The parent company's main activities are investments in subsidiaries within the fertility industry and related production, including providing management services.

Development in activities and finances

In 2020 European Sperm Bank ApS realized gross profit of DKK 93m equivalent to 22% growth compared to 2019. The growth in gross profit was driven by positive momentum across markets achieved in both of its two distribution channels i.e. sales to clinics and sales directly to end customers.

Following the acquisition, the Group structure and setup have changed. As a result of this, reported EBITDA for the Group in 2019 (9 months) of DKK -3.6m was negatively impacted by Purchase Price Adjustments (PPA) and one-off expenses related to the transaction. In addition, significant investments have been made in strategic initiatives and strengthening of the organisation to support future growth. The financial impact of these growth investments is yet to materialize.

Given the restructuring and strategic initiatives undertaken, the management team considers the results for the financial year of 2020 to be satisfactory.

Uncertainty relating to recognition and measurement

No significant uncertainties are attached to recognition and measurement.

Unusual circumstances affecting recognition and measurement

No significant unusual circumstances affecting recognition and measurement have occurred.

Outlook

Management has developed a strategic plan with initiatives supporting a continued strong growth of the company. The COVID-19 pandemic is not expected to have a negative impact on the company. In general the fertility industry is considered having little sensitivity to economic trends.
No events have occured after the balance sheet date which impact the financial statement.

Particular risks

Business risks

The company is not exposed to any specific business risks besides the commonly occurring risks in the industry.

The Board of Directors must reassure a continuous monitoring of the development in the market in order to reduce the business risks, as well as strengthen its competitive position on crucial parameters.

Political risks

The Group's political risks are related to changes in the general public opinion and adverse political developments.

The overall regulatory trend and public opinion across key markets is in direction of liberalization and opening treatment to more demographic groups. The Board of Directors continuously monitor the situation.

Currency risks

The currency risks are substantially exposed to the Euro currency. Furthermore, a smaller risk relates to the GDP exposure derived from the UK-based production activities. The risk hereto is considered limited. Exchange rate adjustments of trade receivables, trade payables and cash in foreign currency is recognized as financial items. Currency risks related thereto, are not hedged.

Credit risks

The Group's credit risks are related to trade receivables. The Group closely examines and manages the risk exposure by assessing the creditworthiness of all significant customers and professionals. Since the Group's customer base is very dispersed, no significant credit risk is associated with a single party.

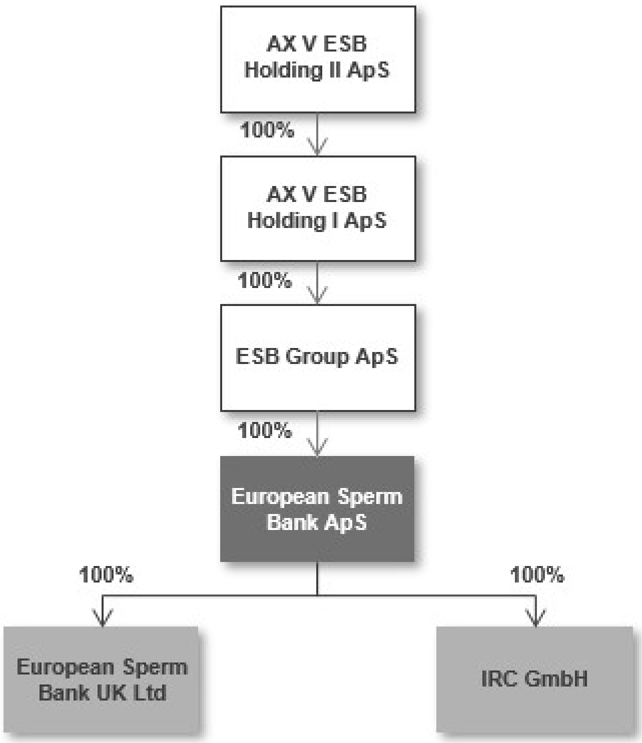
Knowledge resources

The ambition to be the world's most respected fertility bank puts high pressure on the Group when it comes to attracting, developing, and retaining high-quality members of staff with a high level of competence. The realization of the Group's goal of ensuring both quality knowledge and knowhow at each level of staff will be facilitated through recruitment procedures and a continuous development of the existing staff and their competences. Throughout the year, a considerable number of experienced and highly qualified members of staff have been added to the Group including a new CCO and COO. This initiative has strengthened the Group's knowledge and competence base.

Research and development activities

The Group's research activities are related and limited to its natural high level of knowledge about sperm, and sperm quality among its large donor base and how this fundamental input factor in the fertility industry is developing over time.

Group relations



Statutory report on corporate social responsibility

Being a sperm bank is an unusual and rewarding task by the fact, that the activities of the Group plays a part in giving life to new human beings. The purpose of the company is to help bring healthy children into an openminded society and in doing so be obliged to respect the long-term perspective of its activities. Understanding and appreciating this long-term impact means that the Group needs to think about the future for all parties involved. This is the promise to all stakeholders, who are considered to be the donor children and their families, the donors, the employees, the fertility clinics, society, the planet, suppliers and the authorities.

In 2019 the Group developed a corporate strategy for 2020-2023 and out of the 9 chosen cornerstones, one is to develop a CSR strategy and action plan that includes perspectives on all stakeholders. As part of developing the CSR cornerstone, it was also decided in 2019, that the group will join UN Global Compact in 2020 and release a Code of Conduct and a Business Ethics Policy. These are topics that have never been formulated in writing in the Group but have been an embedded part of the corporate culture. Nevertheless, as the company grows, it sees the need to formalise the views on these important matters.

As part of the preparation for entering UN Global Compact in 2020, the Group has worked with Klinkby Enge to map how it matches the UN Sustainable Development Goals in 2019. The Group contributes positively to a long list of SDGs and in particular target 3.7 Ensure universal access to sexual and reproductive healthcare services and targets 3.2, 3.3 and 3.4, who all relates to the health of the population.

Events after the balance sheet date

No events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report.

Consolidated income statement for 2020

	Notes	2020 DKK'000	2019 DKK'000
Gross profit/loss		**74,871**	**41,165**
Staff costs	1	(35,261)	(24,445)
Depreciation, amortisation and impairment losses		(36,219)	(27,913)
Other operating expenses		0	(20,365)
Operating profit/loss		**3,391**	**(31,558)**
Other financial income	2	87	1,656
Other financial expenses	3	(14,236)	(19,155)
Profit/loss before tax		**(10,758)**	**(49,057)**
Tax on profit/loss for the year	4	(6,068)	2,609
Profit/loss for the year	5	**(16,826)**	**(46,448)**

Consolidated balance sheet at 31.12.2020

Assets

	Notes	2020 DKK'000	2019 DKK'000
Completed development projects	7	4,358	6,416
Acquired intangible assets		62,230	67,431
Acquired rights		33,804	37,386
Goodwill		425,547	449,008
Development projects in progress	7	6,135	0
Intangible assets	6	**532,074**	**560,241**
Other fixtures and fittings, tools and equipment		5,366	5,909
Leasehold improvements		4,954	6,317
Property, plant and equipment	8	**10,320**	**12,226**
Other receivables		1,271	1,289
Financial assets	9	**1,271**	**1,289**
Fixed assets		**543,665**	**573,756**
Manufactured goods and goods for resale		56,371	64,484
Inventories		**56,371**	**64,484**
Trade receivables		7,969	9,620
Other receivables		458	1,246
Prepayments	10	1,664	821
Receivables		**10,091**	**11,687**
Cash		**46,887**	**9,579**
Current assets		**113,349**	**85,750**
Assets		**657,014**	**659,506**

Equity and liabilities

	Notes	2020 DKK'000	2019 DKK'000
Contributed capital		282	282
Translation reserve		641	0
Reserve for development costs		8,280	4,360
Retained earnings		169,630	184,134
Equity belonging to Parent's shareholders		**178,833**	**188,776**
Equity belonging to minority interests		**105,757**	**107,314**
Equity		**284,590**	**296,090**
Deferred tax	11	23,015	29,264
Provisions		**23,015**	**29,264**
Bank loans		216,960	228,480
Other payables		80,330	78,207
Non-current liabilities other than provisions	12	**297,290**	**306,687**
Current portion of non-current liabilities other than provisions	12	11,520	8,640
Bank loans		0	3,323
Trade payables		10,154	7,209
Tax payable		13,535	1,358
Other payables		16,910	6,935
Current liabilities other than provisions		**52,119**	**27,465**
Liabilities other than provisions		**349,409**	**334,152**
Equity and liabilities		**657,014**	**659,506**
Unrecognised rental and lease commitments	14		
Subsidiaries	15		

Consolidated statement of changes in equity for 2020

	Contributed capital DKK'000	Translation reserve DKK'000	Reserve for development costs DKK'000	Retained earnings DKK'000	Equity belonging to Parent's shareholders DKK'000
Equity beginning of year	282	0	4,360	184,134	188,776
Increase of capital	0	0	0	0	0
Exchange rate adjustments	0	641	0	0	641
Transfer to reserves	0	0	3,920	(3,920)	0
Profit/loss for the year	0	0	0	(10,584)	(10,584)
Equity end of year	**282**	**641**	**8,280**	**169,630**	**178,833**

	Equity belonging to minority interests DKK'000	Total DKK'000
Equity beginning of year	107,314	296,090
Increase of capital	4,685	4,685
Exchange rate adjustments	0	641
Transfer to reserves	0	0
Profit/loss for the year	(6,242)	(16,826)
Equity end of year	**105,757**	**284,590**

Consolidated cash flow statement for 2020

	Notes	2020 DKK'000	2019 DKK'000
Operating profit/loss		3,391	(31,558)
Amortisation, depreciation and impairment losses		36,219	30,404
Working capital changes	13	3,325	9,110
Non cash items including effect from business combinations		0	148,013
Cash flow from ordinary operating activities		**42,935**	**155,969**
Financial income received		87	1,656
Financial expenses paid		(14,235)	(19,155)
Cash flows from operating activities		**28,787**	**138,470**
Acquisition etc. of intangible assets		(1,542)	(4,400)
Acquisition etc. of property, plant and equipment		(254)	(2,934)
Acquisition of enterprises		0	(647,475)
Cash flows from investing activities		**(1,796)**	**(654,809)**
Free cash flows generated from operations and investments before financing		**26,991**	**(516,339)**
Loans raised		8,640	315,327
Cash capital increase		5,000	231,650
Warrants excercised		0	(24,432)
Cash flows from financing activities		**13,640**	**522,545**
Increase/decrease in cash and cash equivalents		**40,631**	**6,206**
Cash and cash equivalents beginning of year		6,256	50
Cash and cash equivalents end of year		**46,887**	**6,256**
Cash and cash equivalents at year-end are composed of:			
Cash		46,887	9,579
Short-term bank loans		0	(3,323)
Cash and cash equivalents end of year		**46,887**	**6,256**

Notes to consolidated financial statements

1 Staff costs

	2020 DKK'000	2019 DKK'000
Wages and salaries	42,425	32,625
Pension costs	2,049	1,226
Other social security costs	1,115	317
Other staff costs	2,632	1,779
	48,221	**35,947**
Staff costs classified as assets	(12,960)	(11,502)
	35,261	**24,445**

Average number of full-time employees	**62**	**54**

	Remuneration of management 2020 DKK'000	Remuneration of management 2019 DKK'000
Total amount for management categories	4,377	2,840
	4,377	**2,840**

Special incentive programmes

In April 2019, an incentive scheme was established comprising both the Board of Directors, the Executive Management and other employees and the incentive scheme is made to motivate and retain the participants.

The incentive scheme allow participants to subscribe for a number of warrants, each entitling the holder to buy 1 share of a nominal value of DKK 0.01 in the Company at a price agreed in advance plus an annual hurdle rate of

8%. The warrants subscribed for are allotted 1 year from the date of subscription with 1/4 and thereafter with 1/48 per month until all warrants are allotted if certain conditions are met.

As of 31st December 2020, participants in the incentive scheme have subscribed for 5,899,329 warrants in total corresponding to 1.6% of the outstanding share capital on a fully-diluted basis, and 1,717,472 warrants have vested.

2 Other financial income

	2020 DKK'000	2019 DKK'000
Financial income from group enterprises	87	82
Other financial income	0	1,574
	87	**1,656**

3 Other financial expenses

	2020 DKK'000	2019 DKK'000
Other interest expenses	0	11,314
Other financial expenses	14,236	7,841
	14,236	**19,155**

4 Tax on profit/loss for the year

	2020 DKK'000	2019 DKK'000
Current tax	11,582	2,265
Change in deferred tax	(5,514)	(4,874)
	6,068	**(2,609)**

5 Proposed distribution of profit/loss

	2020 DKK'000	2019 DKK'000
Retained earnings	(10,584)	(30,522)
Minority interests' share of profit/loss	(6,242)	(15,926)
	(16,826)	**(46,448)**

6 Intangible assets

	Completed development projects DKK'000	Acquired intangible assets DKK'000	Acquired rights DKK'000	Goodwill DKK'000	Development projects in progress DKK'000
Cost beginning of year	13,566	70,150	41,254	466,755	0
Additions	1,112	0	0	0	6,135
Disposals	(5,705)	0	0	0	0
Cost end of year	**8,973**	**70,150**	**41,254**	**466,755**	**6,135**
Amortisation and impairment losses beginning of year	(7,150)	(2,719)	(3,868)	(17,747)	0
Amortisation for the year	(3,170)	(5,201)	(3,582)	(23,461)	0
Reversal regarding disposals	5,705	0	0	0	0
Amortisation and impairment losses end of year	**(4,615)**	**(7,920)**	**(7,450)**	**(41,208)**	**0**
Carrying amount end of year	**4,358**	**62,230**	**33,804**	**425,547**	**6,135**

7 Development projects

Completed development projects comprises the development of a new website and ERP-system. Acquired intangible assets, rights and goodwill has been identified through the purchase price allocation in connection with the acquisition of ESB at 3 april 2019.

8 Property, plant and equipment

	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improvements DKK'000
Cost beginning of year	9,765	10,485
Additions	254	0
Cost end of year	**10,019**	**10,485**
Depreciation and impairment losses beginning of year	(3,856)	(4,168)
Depreciation for the year	(797)	(1,363)
Depreciation and impairment losses end of year	**(4,653)**	**(5,531)**
Carrying amount end of year	**5,366**	**4,954**

9 Financial assets

	Other receivables DKK'000
Cost beginning of year	1,289
Disposals	(18)
Cost end of year	**1,271**
Carrying amount end of year	**1,271**

10 Prepayments

Prepayments are amounts paid for the company in advance of goods and services.

11 Deferred tax

Changes during the year	2020 DKK'000
Beginning of year	29,264
Recognised in the income statement	(6,249)
End of year	**23,015**

Deferred tax relates to intangible assets, property, plant and equipment, inventories and other provisions.

12 Non-current liabilities other than provisions

	Due within 12 months 2020 DKK'000	Due within 12 months 2019 DKK'000	Due after more than 12 months 2020 DKK'000
Bank loans	11,520	8,640	216,960
Other payables	0	0	80,330
	11,520	**8,640**	**297,290**

No bank loans are due after 5 years.

13 Changes in working capital

	2020 DKK'000	2019 DKK'000
Increase/decrease in inventories	14,474	5,613
Increase/decrease in receivables	(1,507)	(2,731)
Increase/decrease in trade payables etc.	(9,642)	6,228
	3,325	**9,110**

14 Unrecognised rental and lease commitments

	2020 DKK'000	2019 DKK'000
Total liabilities under rental or lease agreements until maturity	12,924	12,772

15 Subsidiaries

	Registered in	Corporate form	Ownership %
European Sperm Bank ApS	Copenhagen	ApS	100
European Sperm Bank Ltd.	UK	Ltd.	100
European Sperm Bank GmbH	Germany	GmbH	100
AX V ESB Holding I ApS	Copenhagen	ApS	100
AX V ESB Holding II ApS	Copenhagen	ApS	100

Parent income statement for 2020

	Notes	2020 DKK'000	2019 DKK'000
Gross profit/loss		**(38)**	**0**
Other financial expenses	1	0	(2,504)
Profit/loss before tax		**(38)**	**(2,504)**
Tax on profit/loss for the year		8	0
Profit/loss for the year	2	**(30)**	**(2,504)**

Parent balance sheet at 31.12.2020

Assets

	Notes	2020 DKK'000	2019 DKK'000
Investments in group enterprises		229,219	229,219
Financial assets	3	**229,219**	**229,219**
Fixed assets		**229,219**	**229,219**
Joint taxation contribution receivable		8	0
Receivables		**8**	**0**
Cash		**60**	**98**
Current assets		**68**	**98**
Assets		**229,287**	**229,317**

Equity and liabilities

	Notes	2020 DKK'000	2019 DKK'000
Contributed capital		282	282
Retained earnings		228,874	228,904
Equity		**229,156**	**229,186**
Other payables		131	131
Current liabilities other than provisions		**131**	**131**
Liabilities other than provisions		**131**	**131**
Equity and liabilities		**229,287**	**229,317**
Contingent liabilities	4		
Assets charged and collateral	5		
Related parties with controlling interest	6		

Parent statement of changes in equity for 2020

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	282	228,904	229,186
Profit/loss for the year	0	(30)	(30)
Equity end of year	**282**	**228,874**	**229,156**

Notes to parent financial statements

1 Other financial expenses

	2020 DKK'000	2019 DKK'000
Other interest expenses	0	2,488
Other financial expenses	0	16
	0	**2,504**

2 Proposed distribution of profit and loss

	2020 DKK'000	2019 DKK'000
Retained earnings	(30)	(2,504)
	(30)	**(2,504)**

3 Financial assets

	Investments in group enterprises DKK'000
Additions	229,219
Cost end of year	**229,219**
Carrying amount end of year	**229,219**

A specification of investments in subsidiaries is evident from the notes to the consolidated financial statements.

4 Contingent liabilities

The Entity serves as an administration company in a Danish joint taxation arrangement. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities, and for obligations, if any, relating to the withholding of tax on interest, royalties and dividends for these entities.

5 Assets charged and collateral

The company has provided collateral in the subsidiaries shares as collateral for balances with credit institutions.

6 Related parties with controlling interest

Axcel V K/S, Nørregade 21, 1165 Copenhagen K owns 91,15 % of the shares in the company and thus has the controlling interest.

Accounting policies

Reporting class
This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year.

Recognition and measurement
Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements
The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence.

Basis of consolidation
The consolidated financial statements are prepared on the basis of the financial statements of the Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group’s accounting policies.

Subsidiaries’ financial statement items are recognised in full in the consolidated financial statements.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries’ net assets at the takeover date, with net assets having been calculated at fair value.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, changes in inventories of finished goods and work in progress, own work capitalised, other operating income, costs of raw materials and consumables and external expenses.

Revenue

Revenue from the sale of goods is recognised in the income statement when delivery is made at the place determined by the customer before the end of the financial year. Revenue is measured at fair value excl. VAT and less granted goods and customer discounts.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory writedowns.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Staff costs

Staff costs comprise wages and salaries, and social security contributions, pension contributions, etc. for entity staff.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses relating to property, plant and equipment and intangible assets comprise depreciation, amortisation and impairment losses for the financial year, and gains and losses from the sale of intangible assets and property, plant and equipment.

Other operating expenses

Other operating expenses comprise expenses of a secondary nature as viewed in relation to the Entity's primary activities.

Other financial income

Other financial income comprises dividends etc. received on other investments, interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets, and tax relief under the Danish Tax Prepayment Scheme etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities, and tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Goodwill

Goodwill is the positive difference between cost and fair value of assets and liabilities arising from acquisitions. Goodwill is amortised straight-line over its estimated useful life, which is fixed based on the experience gained by Management for each business area. Useful life has been determined based on an assessment of whether the enterprises are strategically acquired enterprises with a strong market position and a long-term earnings profile and whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. Useful lives are reassessed annually. The amortisation period used are 20 years.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Intellectual property rights etc.

Intellectual property rights etc. comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred less deferred tax is taken to equity under reserve for development costs that is reduced as the development projects are amortised and written down.

The cost of development projects comprises costs such as salaries and amortisation that are directly and indirectly attributable to the development projects.

Indirect production costs in the form of indirectly attributable staff costs and amortisation of intangible assets and depreciation on property, plant and equipment used in the development process are recognised in cost based on time spent on each project.

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. If the useful life cannot be estimated reliably, it is fixed at 10 years. For development projects protected by intellectual property rights, the maximum period of amortisation is the remaining duration of the relevant rights. The amortisation periods used are 3-5 years.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised on a straight-line basis over their remaining duration, and licences are amortised on a straight-line basis over the term of the agreement.

Intellectual property rights etc. are written down to the lower of recoverable amount and carrying amount.

The following estimated useful lives apply:

Acquired development projects	3-5 years
Acquired intangible assets	8 years
Acquired rights	20 years

Property, plant and equipment
Land and buildings, plant and machinery, and other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. For self-constructed assets, cost comprises direct and #indirect costs of materials, components, subsuppliers and labour costs. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

Indirect production costs in the form of indirectly attributable staff costs and amortisation of intangible assets and depreciation on property, plant and equipment used in the manufacturing process are recognised in cost based on time spent on each asset.

Interest expenses on loans for the financing of the manufacture of property, plant and equipment are included in cost if they relate to the manufacturing period. All other finance costs are recognised in the income statement.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment	3-10 years
Leasehold improvements	5-10 years

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises
Investments in group enterprises are measured at cost. Investments are written down to the lower of recoverable amount and carrying amount.

Receivables
Receivables are measured at amortised cost, usually equalling nominal value, less writedowns for bad and doubtful debts.

Inventories
Inventories are measured at the cost according to the weighted average price method. In the event of cost exceeding net realisable value, write-down is made to this lower value. Cost of goods for resale consists of costs for raw materials, direct salaries with the addition of production overhead costs. Production overhead

costs consists of indirect materials and salaries and maintenance of and depreciation on the machines used in the production process, buildings and equipment and costs to administration and leadership of the production.

Joint taxation contributions payable or receivable
Current joint taxation contributions payable or receivable are recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.

Prepayments
Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash
Cash comprises cash in hand and bank deposits.

Deferred tax
Deferred tax is recognised on all temporary differences between the carrying amount and the tax-based value of assets and liabilities, for which the tax-based value is calculated based on the planned use of each asset. However, no deferred tax is recognised for amortisation of goodwill disallowed for tax purposes and temporary differences arising at the date of acquisition that do not result from a business combination and that do not have any effect on profit or loss or on taxable income.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Deferred tax relating to retaxation of previously deducted losses in foreign subsidiaries is recognised on the basis of an actual assessment of the purpose of each subsidiary.

Other financial liabilities
Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Tax payable or receivable
Current tax payable or receivable is recognised in the balance sheet, stated as tax computed on this year's taxable income, adjusted for prepaid tax.

Cash flow statement
The cash flow statement shows cash flows from operating, investing and financing activities, and cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes, and financial income, financial expenses and income tax paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments, and purchase, development, improvement and sale, etc. of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs, and the raising of loans, repayments of interest-bearing debt, including lease liabilities, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.