

# Accounting policies

## Basis of accounting

The annual report is presented in compliance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies. Any further Danish disclosure requirements in respect of annual reports are laid down by the IFRS order issued in compliance with the Danish Financial Statements Act (Årsregnskabsloven) and by regulations issued by the Copenhagen Stock Exchange. The annual report also satisfies the International Financial Reporting Standards issued by the IASB.

The annual report has been prepared on the historical cost basis, except for derivative financial instruments and investments in financial assets held for trading that are measured at fair value.

The principal accounting policies adopted are set out below. Accounting policies are not changed since last year.

Annual reporting figures are stated in Danish kroner:

## Standards and interpretations not yet effective

Changes in standards and interpretations published, but not yet effective, at the time of publication of this annual report have not been incorporated into this report.

New standards which are relevant for the company, but which do not become effective until January 1, 2007, include IAS 1 concerning capital management as well as IFRS 7 concerning financial instruments. Moreover, IFRS 8 concerning business segments will become effective from January 1, 2009. In the opinion of management, the Group's future implementation of these standards and interpretations will not have a significant impact on the annual report.

## Basis of consolidation

The consolidated financial statements include the financial statements of Auriga Industries A/S (the Parent) and the subsidiaries in which the Parent has a direct or indirect stake in the form of at least 50 per cent of the voting rights or in any other way has control. The corporate structure is shown on page 3. Furthermore, enterprises which are owned and managed together with others and in which the parties exercise their control jointly are included through pro rata consolidation in the consolidated financial statements.

The consolidated financial statements are prepared based on the audited financial statements of the Parent, the individual subsidiaries and the pro rata consolidated enterprises through a consolidation of items of a similar nature. Intra-group income and expenditure, shareholdings, balances and dividend as well as unrealised intra-group profits and losses have been eliminated.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary or associate are measured at their fair values at the date of acquisition. Any excess of cost over fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of cost below fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition. The minority interests are stated at the minority interest share of the fair values of the assets and liabilities recognised.

Cost of the acquired enterprise includes the fair value of the consideration paid plus costs directly attributable to the acquisition. If the final consideration sum is conditional upon one or more future events, such adjustments will only be recognised in cost if the particular event is likely to happen and its effect on cost can be reliably calculated.

The profit or loss of subsidiaries acquired or disposed of during the year is included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

## Foreign currency translation

The individual financial statements of subsidiaries are presented in the currency of the primary economic environment in which the subsidiary operates (its functional currency).

Transactions in currencies other than Danish kroner are recognised using the exchange rate at the transaction date. Monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Gains and losses arising on retranslation are included in net profit or loss for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in equity.

On consolidation, the assets and liabilities of the Group's foreign operations are translated at the exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Translation differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognised in the income statement in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the rate prevailing on the balance sheet date.

## Significant accounting estimates

In preparing the financial statements, management necessarily makes estimates and assumptions concerning the factors which affect the reported assets and liabilities as at the balance sheet date as well as the income and expenses reported for the financial period.

The estimates by management are based on historical experience and on a number of other assumptions which are deemed to be reasonable in the circumstances. The result of this process forms the basis of the assessment of the income and expenses reported which do not appear from other material.

The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may arise, which may lead to the actual results deviating from such estimates.

### Income statement

**Revenue** Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes. Revenue is recognised when goods are delivered, and risk has passed.

**Cost of sales** Comprises the consumption of raw materials, including delivery costs, repairs and maintenance, payroll, remuneration and other costs of sales as well as depreciation and amortisation.

**Sales and distribution costs** Include costs incurred in connection with marketing and sales, including payroll and remuneration, rent, advertising, freight, customs duties as well as depreciation and amortisation.

**Administrative expenses** Comprise payroll for administrative staff and management plus other office costs, including depreciation and amortisation, bad debts, IT operations and canteen costs.

**Research and development cost** Include remuneration and payroll and any other costs which relate to the Group's research and development activities including depreciation and amortisation.

These costs also include costs incurred in respect of development projects, where such costs do not fulfil the capitalisation requirements. Also included are costs incurred on an ongoing basis in connection with the maintenance of registration rights in respect of the Group's products.

**Share-based payments** The Group has applied IFRS 2, Share-based Payment.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The item is set off directly against shareholders' equity.

Fair value is measured by use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations.

**Leasing** Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Rents payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight-line basis over the lease term.

**Other operating income** Includes income of a secondary nature in relation to the companies' main objectives, including, among other items, the disposal of non-current assets and royalties.

**Profit/loss in associates** The proportionate share of profit/loss after tax for the year, adjusted for unrealised intra-group profits and losses, is recognised under the item "Share of profit/loss in associates after tax".

**Financial income and expenses** Borrowing costs are recognised in profit or loss in the period in which they are incurred using the effective interest rate.

Interest income is accrued on a time basis, using the effective interest rate.

**Tax** The Parent is jointly taxed with its Danish subsidiaries and related companies and Forskningsfondens Ejendomsselskab A/S as administration company. Current income tax is distributed among the jointly taxed Danish companies in proportion to their taxable incomes.

Current tax payable is based on the taxable profit for the year. The Group's current tax liability is calculated using tax rates that have been enacted by the balance sheet date. Tax for the year, comprising the expected current tax for the year and deferred tax for the year, is recognised in the income statement with the portion attributable to the profit/loss for the year and directly in equity with the portion attributable to items recognised directly in equity.

Current tax is recognised in the balance sheet under receivables where excess on-account tax has been paid and under payables where the on-account tax paid does not cover the current tax.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## Balance sheet

### *Internally generated intangible assets – research and development expenditure*

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally generated intangible asset arising from the Group's attainment of sales and registration rights is recognised only if all of the conditions specified by IAS 38 are met. Expenditure in respect of development projects is recognised if certain criteria are fulfilled under intangible assets and is measured at cost less accumulated amortisation and impairment. Capitalisation is usually subject to it being deemed to be sufficiently certain that future earnings will cover the development expenses. Moreover, in the opinion of the Group, capitalisation is subject to all required public registration and authority approvals having been obtained.

Internally generated intangible assets are amortised on a straight-line basis over their useful lives. Where no internally generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it has incurred.

**Acquired sales and registration rights, know-how** Those intangibles are measured at cost less accumulated amortisation and write-downs. The assets are amortised in accordance with the straight-line method over their expected useful lives, such lives being 5-10 years. Also included are Skamol's excavation rights, which are amortised on the basis of excavated volumes, however, with a minimum amortisation period in accordance with the straight-line method of 10 years.

**Goodwill** Goodwill arising on the acquisition of a subsidiary, associate or jointly controlled entity represents the excess of cost over the Group's interest in the fair value of the identifiable assets and liabilities of such subsidiary, associate or jointly controlled entity at the date of acquisition.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Property, plant and equipment** Buildings, technical and other equipment are carried at cost less accumulated depreciation and impairment losses.

Assets in the course of construction for production, rental or administrative purposes, are carried at cost, less any recognised impairment loss.

Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of own production of non-current assets includes direct and indirect expenses incurred in respect of wages and salaries, consumption of materials and subsuppliers.

Depreciation of the assets commences when the assets are ready for their intended use. Depreciation is based on cost less residual value. Depreciation is charged using the straight-line method on the following bases:

Office and laboratory buildings, residential and tenement buildings and garages	30 yrs
Production and factory buildings and road system	15–20 yrs
Own moler areas	20 yrs
Technical plant and machinery	8 yrs
Fixtures and fittings, tools and equipment	5 yrs

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

**Impairment of property, plant and equipment and intangible assets excluding goodwill** At each balance sheet date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. An intangible asset with an indefinite useful life is tested for impairment annually and whenever there is an indication that such asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

**Investments in associates** An associate is an entity over which the Group is in a position to exercise significant influence, but not control or jointly control, through participation in the financial and operating policy decisions of the investee.

The results as well as assets and liabilities of associates are recognised in these financial statements using the equity method. Investments in associates are carried in the balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of the associates in excess of the Group's investment in such associates are not recognised.

Any excess of cost over the Group's share of fair values of the identifiable net assets of the associate at the date of acquisition is

recognised as goodwill. Any deficiency of cost below the Group's share of fair values of the identifiable net assets of the associate at the date of acquisition (i.e. discount on acquisition) is credited in the income statement in the period of acquisition.

Where a group enterprise transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's investment in the relevant associate.

**Inventories** Inventories are stated at the lower of cost and net realisable value according to the average cost formula. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Indirect production overheads include the proportionate share of capacity costs directly related to own-manufactured goods and work in progress.

**Receivables** Receivables are measured at amortised cost. The risk of bad debts is assessed on an individual basis.

**Investments** Investments are recognised and derecognised on the trade date, and are initially measured at fair value.

Investments are classified as investments held for trading and are measured at subsequent reporting dates at fair value. Gains and losses arising from changes in fair value are included in profit or loss for the period.

Fair value is stated as the listed price of listed securities and at an estimated fair value calculated on the basis of market information and acknowledged valuation methods for other securities.

Equity interest investments which are not traded in an active market and in respect of which the fair value cannot be calculated in a sufficiently reliable manner are measured at cost

**Equity** Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Dividend is recognised as a liability at the time of adoption by the General Meeting. Proposed dividend for the financial year is shown as a separate item under equity.

The acquisition of treasury shares is recognised directly in equity at cost under "Retained earnings". Proceeds on the disposal of treasury shares and dividends received are also recognised directly in equity.

**Retirement benefit obligations** Payments to defined contribution plans are charged as an expense as they fall due. Payments made to state-managed retirement benefit plans are dealt with as payments to defined contribution plans where the Group's obligations under the schemes are equivalent to those arising in a defined contribution plan.

For defined retirement benefit plans, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside profit or loss and presented in the statement of recognised income and expense.

Past service cost is recognised immediately in the income statement if the vesting period has terminated, and otherwise is amortised on a straight-line basis over the average period until the vesting period terminates.

The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation reduced by the fair value of scheme assets. Any net asset cannot

exceed the present value of refunds and reductions in future contributions to the plan.

**Provisions** Provisions are recognised when the Company, following an event occurring before or on the balance sheet date, has a legal or constructive obligation, the settlement of which is expected to result in an outflow from the Company of economic benefits. Provisions with expected expiry exceeding one year after the balance sheet date are measured to the present value.

**Bank borrowings** Interest-bearing bank loans and overdrafts etc. are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accrual basis to the income statement using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

**Trade payables** Trade payables are not interest-bearing and are stated at their nominal value.

**Derivative financial instruments and hedge accounting** The Group's activities expose it primarily to the financial risks of changes in exchange rates and interest rates. The Group uses, among other financial instruments, forward exchange contracts and interest rate swap contracts to hedge these exposures.

The use of financial derivatives is governed by the Group's policies, approved by the Board of Directors, which provide written principles on the use of financial derivatives.

Changes in the fair values of derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in equity and the ineffective portion is recognised immediately in the income statement. If the hedging of a cash flow from a firm commitment or forecast transaction results in the recognition of an asset or a liability, then, at the time such asset or liability is recognised, the associated gains or losses on the derivative that had previously been recognised in equity are included in the initial measurement of the asset or liability. For hedges that do not result in the recognition of an asset or a liability, amounts deferred in equity are recognised in the income statement in the same period in which the hedged item affects net profit or loss.

Changes in the fair values of derivative financial instruments, classified as and satisfying the criteria for hedging of the fair value of a recognised asset or a recognised liability, are recognised in the income statement together with the changes in fair value of the hedged asset or hedged liability.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as they arise.

**Cash flow statement** The cash flow statement is presented in accordance with the indirect method. Cash and cash equivalents comprise cash and investments less the share of the short-term bank debt included in the Company's continuous liquidity management. The cash flow statement cannot be compiled exclusively on the basis of the published financial statements.

**Segment information** Segment information includes business segments (primary segment) and geographical markets (secondary segment). The Group's primary activities comprise the chemical, agricultural machinery and insulation material segments. The segment information complies with the Group's accounting policies and internal financial management.