

## ACCOUNTING POLICIES

### Basis of accounting

The Annual Report of Auriga Industries A/S, which comprises both the consolidated financial statements and the financial statements of the parent, 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 NASDAQ OMX, Copenhagen. 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.

The accounting policies are applied consistently with last year, except for the implementation of new and revised standards, concerning presentation.

Annual reporting figures are stated in Danish kroner.

### Implementation of new and changed standards and interpretations

The Annual Report for 2009 has been presented in accordance with the new and changed standards and new interpretations effective for financial years beginning on or after January 1, 2009, including, among others, IAS 1 Presentation of financial statements, IAS 23 Borrowing costs, IFRS 7 Financial instruments: Disclosures and IFRS 8 Operating segments.

### Standards and interpretations not yet effective

Changes in standards and interpretations approved by IASB, 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 after January 1, 2009, include amendments to IAS 32 Financial instruments: Presentation, IAS 39 Financial instruments: Recognition and measurement, IFRS 9 Financial instruments: Classification and measurement and IFRS 3 Business combinations. 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% of the voting rights or in any other way has control. 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 excess of fair values over cost of the identifiable net assets acquired (i.e. negative goodwill) is recognised in the income statement at the date 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 the functional currency of the individual subsidiary are recognised on initial recognition 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 recognised in the income statement for the period, except for exchange differences arising on non-monetary assets and liabilities where the changes in fair value are recognised directly in other comprehensive income.

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, unless these deviate significantly from the actual exchange rates at the transaction dates. In the latter case, the actual exchange rates are used. Translation differences arising, if any, are recognised in other comprehensive income as translation adjustments of foreign entities. 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.

As management develops better methods of accounting, it will become more experienced at assessing estimates. This development will lead to improved accounting treatment of estimates which will help reduce the uncertainties associated with estimates.

### **Change of accounting estimates**

The results for the year are positively impacted by DKK 31 million before tax as a result of a change to estimates concerning write-downs relating to inventories.

### **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 in the income statement when goods are delivered, and risk has passed.

#### **Government grants**

Government grants comprise development and financing grants, investment grants etc. Grants are recognised when there is reasonable certainty that they will be received.

Grants for the purchase of assets and development projects are offset against the cost of the asset. Grants to cover costs incurred are offset against the costs incurred.

#### **Cost of sales**

Comprises the consumption of raw materials, including delivery costs, repairs and maintenance, wages and salaries, 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 wages and salaries, rent, advertising, freight, customs duties as well as depreciation and amortisation.

#### **Administrative expenses**

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

#### **Development and registration costs**

Include wages and salaries 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.

### **Bonus schemes**

The group issues bonus schemes to certain employees. Bonus schemes are debt schemes. The bonus calculated is expensed on a straight-line basis over the vesting period, based on the group's economic value added (EVA). Before 2009, share-based remuneration was expensed over the income period based on the group's calculations of the number of phantom shares expected to be granted. From 2009, profit-sharing is provided for under other payables.

### **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 in the balance sheet 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 costs and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are recognised directly in the income statement.

Rents payable under operating leases are charged to expenses 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 "Profit after tax from investments in associates".

### **Financial income and expenses**

Financial income and expenses comprise interest, capital gains and losses on securities and write-downs concerning securities, payables and foreign currency transactions, amortisation of financial assets and liabilities, including financial lease commitments as well as supplementary payments and refunds under the tax prepayment scheme etc. Realised and unrealised gains and losses on derivative financial instruments which cannot be classified as hedging agreements are also recognised.

Interest income and expenses are accrued based on the principal amount and the effective interest rate.

### **Tax**

The parent is jointly taxed with its Danish sister companies and subsidiaries and with Forskningsfondens Ejendomselskab A/S as trust 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 net profit/loss for the year and in other comprehensive income with the portion attributable to items recognised in other comprehensive income.

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 all temporary 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 tax losses allowed for carry forward can be offset against tax profits. 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 on 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 – Development and registration costs

Expenditure on research activities is recognised in the income statement 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 costs. Moreover, in the opinion of the group, capitalisation assumes that all required public registration and authority approvals can be expected to be obtained and development costs can be reliably measured.

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 costs are recognised in the income statement in the period in which they are incurred.

### Acquired sales and registration rights, know-how

Those intangibles are measured at cost less accumulated amortisation and impairment. The assets are amortised in

accordance with the straight-line method over their expected useful lives, such lives being 3-10 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, liabilities and contingent 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 cannot be reversed in a subsequent period.

On disposal of a subsidiary, associate or jointly controlled entity, the attributable amount of goodwill is recognised in the income statement.

### Intangible assets under construction

Assets under construction are measured at cost less any impairment. Amortisation of such assets begins when the assets are ready for use.

### Property, plant and equipment

Buildings, technical plant and machinery 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 losses.

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 sub-suppliers.

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

Office and laboratory buildings, residential and tenement buildings and garages	30 years
Production and factory buildings and road systems	15-20 years
Technical plant and machinery	8 years
Fixtures and fittings, tools and equipment	5 years

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 property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the assets 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 selling costs 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 is reduced to its recoverable amount. An impairment loss is recognised as an expense in the income statement.

Where an impairment loss is subsequently reversed, 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 in prior years. A reversal of an impairment loss is recognised as income in the income statement.

### **Investment properties**

Investment properties are properties owned for the purpose of generating rental income or capital gains.

Investment properties are measured at cost, comprising purchase price and costs incurred, less accumulated depreciation and impairment. The basis of depreciation is cost, and depreciation is calculated on a straight-line basis over the expected useful lives of the properties, such lives being 30 years.

### **Investments in subsidiaries and associates in the financial statements of the parent**

Investments in subsidiaries and associates are measured at cost in the financial statements of the parent. If the cost exceeds the recoverable amount of the investment, it is written down to the lower value. If more dividend is distributed than has been earned by the enterprise since the parent's acquisition of the investments, this is regarded as an indication of impairment. In connection with the divestment of investments in subsidiaries and associates, gains or losses are stated as the difference between the carrying amount of the investments divested and the fair value of the sales proceeds.

### **Investments in associates in the consolidated financial statements**

Investments in associates are recognised and measured in the consolidated financial statements in accordance with the equity method. This means that the investments are measured at the proportional share of the enterprises' equity value stated in accordance with the group's accounting policies less or plus intra-group profits or losses and plus the carrying amount of goodwill.

The profit includes the proportional share of the enterprises' profits or losses after tax and elimination of unrealised proportional intra-group profits or losses and less any impairment of goodwill. Other comprehensive income for the group comprises the proportional share of all transactions and events recognised in the other comprehensive income of the associate.

Investments in associates with a negative equity value are measured at DKK 0. Receivables and other non-current financial assets which are regarded as part of the combined investment in the associate are written down by any remaining negative equity value. Trade receivables and other receivables are written down only if they are deemed to be uncollectible. Provisions to cover the remaining negative equity value are made only if the group has a legal or actual obligation to cover the liabilities of the enterprise in question.

On the acquisition of investments in associates, the purchase method is applied.

### **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 indirect production overheads (IPO) 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 comprise trade receivables. Receivables are included in the category loans and receivables which are financial assets with fixed or identifiable payments which are not listed in an active market and which are not derivative financial instruments.

Receivables are measured at amortised cost and are initially recognised at fair value. Write-down is carried out to cover expected bad debts on the basis of individual assessments of the receivables.

### **Securities and equity investments**

Securities are recognised and derecognised on the trading date, and are initially measured at fair value.

Securities are classified as securities held for trading and are subsequently measured at fair value. Gains and losses arising from changes in fair value are recognised in the income statement.

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 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.

Securities and investments are included in the category financial assets available for sale. Financial assets available for sale are financial assets which cannot be classified as either loans or receivables, financial assets measured at fair value via the income statement or held-to-maturity financial assets.

### **Equity**

Equity instruments issued by the company are recognised at the proceeds received, net of direct 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 treated 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-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 not recognised in the income statement but presented as other comprehensive income in the statement of comprehensive income.

Past service cost is recognised immediately in the income statement if the vesting period has terminated, and is otherwise written down 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 group, following a past event, has a legal or constructive obligation, the settlement of which is expected to result in an outflow from the company of economic benefits. Provisions concerning obligations expected to fall due more than one year from the balance sheet date are measured at present value.

#### Payables

Interest-bearing bank loans and overdrafts etc. are recognised the first time at fair value, net of direct loan costs. Subsequent measurements are made at amortised cost. Finance costs, including premiums payable on settlement or redemption and direct costs, are accounted for on an accrual basis in 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. Subsequent measurements are made at amortised cost.

#### Derivative financial instruments and foreign currency hedging

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 other comprehensive income 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, amounts offset against other comprehensive income are transferred from other comprehensive income and recognised in the cost of the asset or liability. If the future transaction results in income or expenses, amounts offset against other comprehensive income are transferred to the income statement in the same period in which the hedged transaction is completed.

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 securities less the share of the short-term bank debt included in the company's continuous liquidity management. In the cash flow statement of the parent, cash includes balances with group companies. The cash flow statement cannot be compiled exclusively on the basis of the published financial statements.

#### Segment information

Segment information includes five regions and five business segments. The group's regions can be divided into: Europe, ANZAC, LATAM, International and Other activities. The segment information complies with the group's accounting policies and internal financial management.

Segment income and expenses and segment assets and liabilities comprise items which are directly attributable to the individual segment and items that can be reliably distributed onto the individual segments. Undistributed items primarily concern assets and liabilities as well as income and expenses associated with the group's administrative functions, investing activities, income taxes etc.

Non-current assets in the segments comprise assets which are used directly in the operation of the segment, including intangible assets and property, plant and equipment as well as investments in associates. Current assets in the segments comprise assets which are directly associated with the operation of the segment, including inventories, trade receivables, other receivables and cash.

Liabilities associated with the segments comprise liabilities which are derived from the operation of the segment, including trade payables, provisions and other payables.

