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# ***Forward Pharma A/S***

Østergade 24 A, 1., DK-1100 København K

## **Annual Report for 1 January - 31 December 2018**

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CVR No 28 86 58 80

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
/ 2019

Frederik B. Hasling  
Chairman of the General  
Meeting

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# Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Forward Pharma A/S for the financial year 1 January - 31 December 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and of the results of the Company operations for 2018.

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

Copenhagen,

## Executive Board

Claus Bo Søndergaard Svendsen  
Executive Officer

## Board of Directors

Florian Schönharting  
Chairman

Torsten Goesch

Jakob Mosegaard Larsen

Grant Hellier Lawrence

Duncan Moore

# **Independent Auditor's Report**

To the Shareholders of Forward Pharma A/S

## **Opinion**

We have audited the financial statements of Forward Pharma A/S for the financial year 1 January – 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations for the financial year 1 January – 31 December 2018 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 financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **Independence**

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

## **Management's responsibilities for the Financial Statements**

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

# **Independent Auditor's Report**

## **Auditor's responsibilities for the audit of the Financial Statements**

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and 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 the financial statements.

## **Independent auditor's report**

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

# Independent Auditor's Report

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

## Statement on Management's Review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

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

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

Copenhagen,

**ERNST & YOUNG**

Godkendt Revisionspartnerselskab

*CVR No 30 70 02 28*

Claus Kronbak

State Authorised Public Accountant

mne28675

## **Company Information**

### **The Company**

Forward Pharma A/S  
Østergade 24 A, 1.  
DK-1100 København K

CVR No: 28 86 58 80

Financial period: 1 January - 31 December

Municipality of reg. office: København

### **Board of Directors**

Florian Schönharting, Chairman  
Torsten Goesch  
Jakob Mosegaard Larsen  
Grant Hellier Lawrence  
Duncan Moore

### **Executive Board**

Claus Bo Søndergaard Svendsen

### **Auditors**

ERNST & YOUNG  
Godkendt Revisionspartnerselskab  
Osvold Helmuths Vej 4  
DK-2000 Frederiksberg

# Management's Review

## In general

Forward Pharma A/S (the "Company") is a limited liability company incorporated and domiciled in Denmark. The registered office is located in Copenhagen, Denmark. The Company has directly, and indirectly, owned German, United States and two Danish subsidiaries, identified as follows: Forward Pharma GmbH ("FP GmbH"), Forward Pharma USA, LLC ("LLC"), Forward Pharma FA ApS and Forward Pharma Operations ApS ("Operations"), respectively. The Company and its subsidiaries are collectively referred to as the "Group".

The accompanying financial statements are those of the Company only. The Company's directly owned subsidiaries (LLC and Operations) are reflected in the accompanying financial statements as "Investments in subsidiaries."

In February 2017, the Company entered into a Settlement and License Agreement (the "License Agreement") with two wholly owned subsidiaries of Biogen Inc. (collectively "Biogen"). Prior to entering into the License Agreement, the Company was actively developing FP187®, a proprietary formulation of dimethyl fumarate ("DMF"), for the treatment of multiple sclerosis ("MS") patients. In accordance with the License Agreement, Biogen paid the Company a non-refundable fee of \$1.25 billion (DKK 8.7 billion) ("Non-refundable Fee") in February 2017. The License Agreement also provides for contingently payable royalties due the Company, as defined in the License Agreement, based on the outcome of certain matters discussed further below.

The License Agreement did not resolve the U.S. interference proceeding (the "Interference Proceeding") between the Company and Biogen or the pending opposition proceeding against the Company's European patent EP2801355 (the "Opposition Proceeding"). The License Agreement contemplated the United States Patent Trial and Appeal Board ("PTAB") and the United States Court of Appeals for the Federal Circuit (the "Federal Circuit"), as applicable, and the Opposition Division, the Technical Board of Appeal and the Enlarged Board of Appeal of the European Patent Office (the "EPO"), as applicable, to make final determinations in the proceedings before them. The final determinations in the proceedings would determine whether future royalties are due the Company in accordance with the License Agreement.

In March 2017, the PTAB issued a decision in the Interference Proceeding in favour of Biogen. The PTAB ruled that the claims of the Company's United States Patent Application No. 11/567,871 are not patentable due to a lack of adequate written description. In May 2017, the Company filed a notice of appeal with the Federal Circuit seeking to have the PTAB's decision overturned and the Interference Proceeding reinstated. In October 2018, the Federal Circuit affirmed the PTAB's decision. In November 2018, the Company filed a petition for rehearing of the Federal Circuit's decision. The rehearing request was denied on January 2, 2019 and the Federal Circuit's decision became final on January 9, 2019. The Federal Circuit's final decision ends the Interference Proceeding in favor of Biogen. As the result of the unsuccessful outcome in the Interference Proceeding, the Group will not be entitled to future royalties on Biogen's net sales in the United States as defined in the License Agreement.

If the Company is successful in the Opposition Proceeding (i.e., the Company obtains, as a result of the Opposition Proceeding, and any appeals therefrom, a patent with a claim covering oral treatment of MS with 480 mg/day of DMF), the Group would be eligible beginning on January 1, 2021 to collect a 10%

## Management's Review

royalty (increasing to 20% from January 1, 2029) until the earlier of the expiration or invalidation of the patents defined in the License Agreement, on a country-by-country basis on Biogen's net sales outside the United States of DMF-containing products indicated for treating MS that, but for the license granted under the License Agreement, would infringe a Company patent, provided that other conditions of the License Agreement are satisfied. Among the conditions that need to be satisfied for any royalty to be payable by Biogen to the Group is the absence of generic entry in a particular geography having a particular impact as defined in the License Agreement. If the Company is unsuccessful in the Opposition Proceeding and any appeals therefrom, the Group would not be entitled to future royalties on Biogen's net sales outside the United States. On January 29, 2018, the Opposition Division of the EPO concluded the oral proceeding concerning patent EP2801355 and issued an initial decision in the Opposition Proceeding. The Opposition Division revoked patent EP2801355 after considering third-party oppositions from several opponents. In March 2018, the Opposition Division issued its written decision with detailed reasons for the decision. In May 2018, the Company submitted its notice of appeal, and in August 2018, the Company submitted the detailed grounds for the appeal. If the Company prevails in such appeal, it is expected that the Technical Board of Appeal will remand the case to the Opposition Division, in order for the Opposition Division to resolve the remaining elements of the original opposition.

On March 25, 2019, the Company received notice from Biogen of their exercise of the option to purchase the intellectual property in the United States associated with the Company pursuant to the License Agreement. The Company and Biogen have consummated the assignment of the United States intellectual property to Biogen and accordingly Biogen has assumed ownership and responsibility for the assigned United States intellectual property.

As a result of entering into the License Agreement, combined with the recently announced unsuccessful outcome in the Interference Proceeding as well as Biogen's purchase of the intellectual property in the United States associated with the Company, the Group has permanently discontinued the development of DMF formulations, including FP187 ®.

The income statement of the Company for the year ended December 31, 2018 shows a loss of DKK 54.3 million. As of December 31, 2018, the Company held cash and cash equivalents of DKK 193.1 million and the Company's equity totaled DKK 534.6 million. The Company currently estimates that there will be adequate liquidity to continue as a going concern beyond the next twelve months. We currently estimate that our use of cash for the year ending December 31, 2019 will range from DKK 26 million to DKK 39 million. We have based this estimate on assumptions that may prove to be wrong, and we could use our capital resources sooner than we currently expect. There is a high level of uncertainty in estimating the costs the Group will incur to continue the Opposition Proceeding and to defend and protect the intellectual property associated with the Company. There are other uncertainties that could negatively affect our estimated cash spend in 2019 including, but not limited to, an unforeseen negative outcome of the joint tax audit in process in Denmark and Germany. Accordingly, our estimated use of cash for the year ending December 31, 2019 could change near-term and the change could be material. We have no long-term financial commitments, such as lines of credit or guarantees, which are expected to affect our liquidity, other than an office rental lease, which we consider immaterial.

## **Management's Review**

We currently expect that our operating results will remain at current levels in the future or exhibit a slightly lower deficit, as the effects of our restructuring initiated in 2017 come fully into effect.

## Income Statement

	Note	2018 DKK	2017 DKK
<b>Revenue</b>		<b>0</b>	<b>8,691,874,444</b>
Other operating income		11,815,058	32,422,674
Other external expenses		-19,423,985	-687,654,447
<b>Gross profit/loss</b>		<b>-7,608,927</b>	<b>8,036,642,671</b>
Staff expenses	1	-39,070,620	-96,687,806
Impairment of investments in subsidiaries		-18,986,161	-8,231,208
<b>Profit/loss before financial income and expenses</b>		<b>-65,665,708</b>	<b>7,931,723,657</b>
Financial income	2	15,465,970	60,783,335
Financial expenses	3	-6,027,974	-79,059,089
<b>Profit/loss before tax</b>		<b>-56,227,712</b>	<b>7,913,447,903</b>
Tax on profit/loss for the year	4	1,932,836	-1,759,516,918
<b>Net profit/loss for the year</b>		<b>-54,294,876</b>	<b>6,153,930,985</b>

## Distribution of profit

### Proposed distribution of profit

Retained earnings		-54,294,876	6,153,930,985
		<b>-54,294,876</b>	<b>6,153,930,985</b>

## Balance Sheet 31 December

### Assets

	Note	2018 DKK	2017 DKK
Investments in subsidiaries		333,549,076	641,998,734
<b>Fixed asset investments</b>		<b>333,549,076</b>	<b>641,998,734</b>
<b>Fixed assets</b>		<b>333,549,076</b>	<b>641,998,734</b>
Receivables from group enterprises		9,984,414	0
Other receivables		0	2,594,893
Corporation tax		1,189,109	0
Prepayments		2,056,789	2,820,483
<b>Receivables</b>		<b>13,230,312</b>	<b>5,415,376</b>
<b>Cash at bank and in hand</b>		<b>193,080,007</b>	<b>431,513,338</b>
<b>Current assets</b>		<b>206,310,319</b>	<b>436,928,714</b>
<b>Assets</b>		<b>539,859,395</b>	<b>1,078,927,448</b>

# Balance Sheet 31 December

## Liabilities and equity

	Note	2018 DKK	2017 DKK
Share capital		950,739	943,680
Other reserves		33,985,125	0
Retained earnings		499,639,718	553,934,594
<b>Equity</b>	5	<b>534,575,582</b>	<b>554,878,274</b>
Provision for deferred tax		0	250,000
<b>Provisions</b>		<b>0</b>	<b>250,000</b>
Trade payables		1,786,744	4,491,602
Payables to group enterprises		609,000	463,520,837
Corporation tax		0	4,915,000
Other payables		764,323	1,152,933
Accrued liabilities		2,123,746	49,718,802
<b>Short-term debt</b>		<b>5,283,813</b>	<b>523,799,174</b>
<b>Debt</b>		<b>5,283,813</b>	<b>523,799,174</b>
<b>Liabilities and equity</b>		<b>539,859,395</b>	<b>1,078,927,448</b>
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## Notes to the Financial Statements

	<u>2018</u>	<u>2017</u>
	DKK	DKK
<b>1 Staff expenses</b>		
Wages and salaries	3,520,381	7,750,032
Other social security expenses	65,244	592,286
Warrants & share-based payments	35,484,995	88,345,488
	<u><b>39,070,620</b></u>	<u><b>96,687,806</b></u>
<b>Average number of employees</b>	<u><b>3</b></u>	<u><b>5</b></u>
<b>2 Financial income</b>		
Interest received from group enterprises	0	30,563
Other financial income	1,680,301	1,650,382
Exchange adjustments	2,002,461	26,578,569
Exchange gains	11,783,208	32,523,821
	<u><b>15,465,970</b></u>	<u><b>60,783,335</b></u>
<b>3 Financial expenses</b>		
Interest paid to group enterprises	0	189,150
Other financial expenses	74,120	19,087,398
Exchange adjustments, expenses	5,687,472	30,719,384
Exchange loss	266,382	29,063,157
	<u><b>6,027,974</b></u>	<u><b>79,059,089</b></u>
<b>4 Tax on profit/loss for the year</b>		
Current tax for the year	-1,682,836	1,662,589,918
Deferred tax for the year	-250,000	96,927,000
	<u><b>-1,932,836</b></u>	<u><b>1,759,516,918</b></u>

# Notes to the Financial Statements

## 5 Equity

	<u>Share capital</u> DKK	<u>Other reserves</u> DKK	<u>Retained earnings</u> DKK	<u>Total</u> DKK
<b>2018</b>				
Equity at 1 January	943,680	0	553,934,594	554,878,274
Share issuance	7,059	0	0	7,059
Share-based compensation	0	38,825,562	0	38,825,562
Equity award payments	0	-4,840,437	0	-4,840,437
Net profit/loss for the year	0	0	-54,294,876	-54,294,876
<b>Equity at 31 December</b>	<b>950,739</b>	<b>33,985,125</b>	<b>499,639,718</b>	<b>534,575,582</b>
	<u>Share capital</u> DKK	<u>Other reserves</u> DKK	<u>Retained earnings</u> DKK	<u>Total</u> DKK
<b>2017</b>				
Equity at 1 January	4,714,389	2,076,568,803	-743,680,917	1,337,602,275
Share issuance	4,011	333,489	0	337,500
Shareholder distribution	-3,774,720	-1,965,792,928	-4,856,315,474	-6,825,883,122
Share-based compensation	0	46,422,702	0	46,422,702
Tax ben. share-based comp.	0	44,093,000	0	44,093,000
Equity award payments	0	-201,625,066	0	-201,625,066
Net profit/loss for the year	0	0	6,153,930,985	6,153,930,985
<b>Equity at 31 December</b>	<b>943,680</b>	<b>0</b>	<b>553,934,594</b>	<b>554,878,274</b>

### Change in presentation currency

	<u>Share capital</u>	<u>Other reserves</u>	<u>Retained earnings</u>	<u>Total</u>
	USD	USD	USD	USD
At 1 January 2017	818,000	294,201,000	-105,362,000	189,657,000
	DKK	DKK	DKK	DKK
At 1 January 2017	4,714,389	2,076,568,803	-743,680,917	1,337,602,275

On 2 August 2017, the Company's shareholders approved a 10 for 1 share split (the "Share Split"). All share information contained in the accompanying financial statements has been adjusted to reflect the Share Split as if it had occurred at the beginning of the earliest period presented. Subsequent to the Share Split, the nominal value of an ordinary share of the Company is 0.01 DKK.

On 2 August 2017, the Company's shareholders approved a capital reduction with a corresponding shareholder distribution of 917.7 million EUR (DKK 6.8 billion.) The funds for the Capital Reduction were distributed to shareholders during September 2017. The Capital Reduction was executed through the annulment of 80% of the ordinary shares outstanding post Share Split. Currently there are no plans to distribute funds to shareholders in the future.

# Notes to the Financial Statements

## 6 Contingent assets, liabilities and other financial obligations

### Contingent liabilities

The Company has been part of two Danish joint tax groups since January 19, 2013 that have included members who are not part of the Group. Under Danish tax rules, the Company is jointly and severally liable, with other members of the Danish joint tax group, for tax obligations of the Danish tax group. Any subsequent adjustments of either Danish joint tax group's taxable income may increase the Company's liability.

The Danish tax authorities are currently conducting an audit of the Company's tax returns for 2013 through the years ended 31 December 2017. Management believes that appropriate tax filing provisions have been taken by the Company; however, there is always a risk that the tax authorities could disagree with the tax filing positions taken resulting in additional taxes, interest and penalty becoming due and such amount could be material.

## 7 Subsequent events

Subsequent to December 31, 2018, there were no events that were required to be reported except for the final decision reached in the Interference Proceeding, Biogen's purchase of the intellectual property in the United States associated with the Company.

# Notes to the Financial Statements

## 8 Accounting Policies

The Annual Report of the Company for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

In previous years, the Company's financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted in the EU and were presented in USD. For the 2018 Annual Report, the Company has elected to report in accordance with the Danish Financial Statements Act and to present such amounts in DKK. The Company's change to report under the Danish Financial Statement Act resulted in classification of a fair value loss on financial investments of 1.7 million DKK as financial items. Under IFRS, the loss was reported under other comprehensive income. Apart from this, the change to report under the Danish Financial Statement Act did not change the accounting policies historically used by the Company.

The comparable amounts for 2017 have been revised to conform with the Danish Financial Statements Act.

The Financial Statements are presented in DKK.

### Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

### Translation policies

The functional currency is Danish kroner (DKK).

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are

# Notes to the Financial Statements

## 8 Accounting Policies (continued)

recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognized in financial income and expenses in the income statement.

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

## Income Statement

### Revenue

During 2017, the Company entered into the License Agreement. The License Agreement provided Biogen with a co-exclusive license in the United States, and an exclusive license outside the United States, to the Company's intellectual property. In accordance with the License Agreement, Biogen paid the Company a non-refundable fee of 1.25 billion USD, or 8.7 billion DKK.

In accordance with the guidelines of IFRS 15, the amount was recognized as revenue because the agreement provides Biogen with a right to use the intellectual property as it exists on the transaction date. The Company had no revenue in 2018.

### Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses and the fair value of share based payment.

### *Share-based payment*

Employees, board members and consultants (who provide services similar to employees) of the Company receive remuneration in the form of equity settled awards whereby services are rendered as consideration for equity awards (warrants, deferred shares or share options). The fair value of these equity settled awards is determined at the date of grant resulting in a fixed fair value at grant date that is not adjusted for future changes in the fair value of the equity awards that may occur over the service period. Fair value of warrants and options is determined using the Black Scholes model while fair value of deferred shares is determined as the fair value of the underlying shares less the present value of expected dividends.

Non employee consultants (who perform services not similar to employees) of the Company have received equity settled awards in the form of warrants or share options as remuneration for services. The fair value of these equity settled awards is measured at the time services are rendered using the Black Scholes model. Under this method, the fair value is determined each quarter over the service period until the award vests.

The cost of share based payments is recognized as an expense together with a corresponding increase in

# Notes to the Financial Statements

## 8 Accounting Policies (continued)

equity over the period in which the performance and/or service conditions are fulfilled.

### Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company.

### Financial income and expenses

Financial income and expenses are recognized in the income statement at the amounts relating to the financial year.

### Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognized in the income statement, whereas the tax attributable to equity transactions is recognized directly in equity.

The Company is a part of a Danish joint taxation group with NB FP Investment General Partner ApS, Forward Pharma Operations ApS and Forward Pharma FA ApS. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable income.

## Balance Sheet

### Investments in subsidiaries

Investments in subsidiaries are measured at cost less impairment losses.

Investment in subsidiaries reviewed annually for indicators of impairment and written down to the higher of value in use and fair value less costs to sell if lower than the carrying amount.

### Receivables

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

### Prepayments

Prepayments include primarily prepaid insurance premiums.

# Notes to the Financial Statements

## 8 Accounting Policies (continued)

### Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

### Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.