# Annual report 2005/06

ALK ABELLÓ

# Contents



Imagine life without allergy

"A summer without allergy gives me more freedom and energy. Everything is easier and more fun."

**Anders Ohlin, Sweden**
Allergic to grass pollen

# Financial highlights and key ratios of the ALK-Abelló Group

| Amounts in DKK/EURm | DKK 2005/06 | DKK 2004/05 | EUR* 2005/06 | EUR* 2004/05 |
|---|---|---|---|---|
| **Income statement** | | | | |
| Revenue | **1,489** | 1,217 | **200** | 163 |
| Operating profit before depreciation (EBITD) | **126** | 59 | **17** | 8 |
| Operating profit (EBIT) | **53** | 2 | **7** | - |
| Net financial items | **40** | (68) | **5** | (9) |
| Profit/(loss) before tax (EBT) | **93** | (66) | **12** | (9) |
| Net profit/(loss), continuing operations | **44** | (68) | **6** | (9) |
| Net profit/(loss), discontinued operations | **-** | 4,416 | **-** | 592 |
| Net profit | **44** | 4,348 | **6** | 583 |
| Average number of employees | **1,227** | 1,027 | **1,227** | 1,027 |
| **Balance sheet** | | | | |
| Total assets | **2,789** | 6,915 | **374** | 927 |
| Invested capital | **890** | 594 | **119** | 80 |
| Equity | **2,094** | 6,208 | **281** | 832 |
| **Cash flow and investments** | | | | |
| Depreciation | **73** | 57 | **10** | 8 |
| Cash flow from operating activities | **60** | 175 | **8** | 23 |
| Cash flow from investing activities | **(370)** | 30 | **(50)** | 4 |
| – of which investment in tangible assets | **(97)** | (64) | **(13)** | (9) |
| Free cash flow | **(310)** | 205 | **(42)** | 27 |
| **Information on shares** | | | | |
| Dividend | **51** | 4,050 | **7** | 543 |
| Share capital | **101** | 101 | **14** | 14 |
| Shares in thousands of DKK 10 each | **10,128** | 10,128 | **10,128** | 10,128 |
| Share price, end of year – DKK/EUR | **765** | 951 | **103** | 127 |
| Net asset value per share – DKK/EUR | **207** | 613 | **28** | 82 |
| **Key ratios** | | | | |
| EBIT margin – % | **3.6** | 0.2 | **3.6** | 0.2 |
| ROAIC – % | **7.1** | 0.1 | **7.1** | 0.1 |
| Pay-out ratio – % | **116** | 93 | **116** | 93 |
| Earnings per share (EPS), continuing operations – DKK/EUR | **2.4** | (10.6) | **0.3** | (1.4) |
| Diluted earnings per share (DEPS), continuing operations – DKK/EUR | **2.4** | (10.6) | **0.3** | (1.4) |
| Cash flow per share (CFPS) – DKK/EUR | **5.9** | 17.3 | **0.8** | 2.3 |
| Cash flow per share (CFPS), continuing operations – DKK/EUR | **5.9** | 17.3 | **0.8** | 2.3 |
| Price earnings ratio (PE) | **319** | (90) | **43** | (12) |
| Share price/Net asset value | **3.7** | 1.6 | **0.5** | 0.2 |
| **Revenue growth – %** | | | | |
| Organic growth | **9** | 15 | **9** | 15 |
| Exchange differences | **-** | (1) | **-** | (1) |
| Acquisitions | **13** | 1 | **13** | 1 |
| Divestments | **-** | - | **-** | - |
| Total growth | **22** | 15 | **22** | 15 |

*) Financial highlights and key ratios stated in EUR constitute supplementary information to the annual report. The exchange rate used in translating from DKK to EUR is the exchange rate ruling at August 31, 2006 (EUR 100 = DKK 746.00).

Definitions: see back cover

# Financial highlights and key ratios of the ALK-Abelló Group

| Amounts in DKKm | **2005/06** | 2004/05 | 2003/04* | 2002/03* | 2001/02* |
|---|---|---|---|---|---|
| **Income statement** | | | | | |
| Revenue | **1,489** | 1,217 | 4,474 | 4,336 | 4,660 |
| Operating profit (EBIT) | **53** | 2 | 320 | 269 | 303 |
| Net financial items | **40** | (68) | (118) | (130) | (130) |
| Profit/(loss) before tax (EBT) | **93** | (66) | 202 | 139 | 173 |
| Net profit | **44** | 4,348 | 76 | 9 | 49 |
| Average number of employees | **1,227** | 1,027 | 3,644 | 3,561 | 3,423 |
| **Balance sheet** | | | | | |
| Total assets | **2,789** | 6,915 | 5,251 | 5,236 | 5,388 |
| Invested capital | **890** | 594 | 4,138 | 4,170 | 4,329 |
| Equity | **2,094** | 6,208 | 1,902 | 1,911 | 1,977 |
| **Cash flow and investments** | | | | | |
| Depreciation | **73** | 57 | 310 | 297 | 306 |
| Cash flow from operating activities | **60** | 175 | 335 | 272 | 555 |
| Cash flow from investing activities | **(370)** | 30 | (349) | (282) | (226) |
| Free cash flow | **(310)** | 205 | (14) | (10) | 329 |
| **Information on shares** | | | | | |
| Dividend | **51** | 4,050 | 20 | 20 | 20 |
| Share capital | **101** | 101 | 101 | 101 | 101 |
| Shares in thousands of DKK 10 each | **10,128** | 10,128 | 10,128 | 10,128 | 10,128 |
| Share price – DKK | **765** | 951 | 408 | 295 | 233 |
| Net asset value per share – DKK | **207** | 613 | 188 | 189 | 195 |
| **Key ratios** | | | | | |
| EBIT margin – % | **3.6** | 0.2 | 7.2 | 6.2 | 6.5 |
| ROAIC – % | **7.1** | 0.1 | 7.7 | 6.3 | 6.6 |
| Pay-out ratio – % | **116** | 93 | 27 | 213 | 42 |
| Earnings per share (EPS) – DKK | **2.4** | 425.4 | 7.5 | 4.8 | 4.8 |
| Cash flow per share (CFPS) – DKK | **5.9** | 17.3 | 30.0 | 23.8 | 51.5 |
| Price earnings ratio (PE) | **319** | (90) | 54 | 60 | 49 |
| Share price/Net asset value | **3.7** | 1.6 | 2.2 | 1.6 | 1.2 |

*) The comparative figures for 2003/04, 2002/03 and 2001/02 have not been restated for the change in accounting policies on transition to IFRS, but have been calculated in accordance with the previous accounting policies on the basis of the provisions of the Danish Financial Statements Act and Danish Accounting Standards as well as the Copenhagen Stock Exchange's financial reporting requirements for listed companies.
Comparative figures for 2003/04, 2002/03 and 2001/02 include the divested ingredients business, Chr. Hansen A/S.

Definitions: see back cover

# A new pharmaceutical company – with an 80-year track record

ALK-Abelló has embarked on a new era. This is the first annual report from the now independently listed pharmaceutical company. More than 80 years of research have made ALK-Abelló the world's leading company in the field of allergy vaccination, a unique treatment focused on the causes of allergy.

The 2005/06 financial year was of particular significance for ALK-Abelló. In March 2006, the Swedish Medical Products Agency approved GRAZAX®, ALK-Abelló's tablet-based vaccine against grass pollen allergy, and in September a broad European approval was obtained on the basis of the mutual recognition procedure.

GRAZAX® is the world's first allergy tablet to address the cause of grass pollen allergy, and the approvals mark the beginning of a paradigm shift in allergy therapies. As an alternative to traditional treatments that alleviate symptoms only, patients are now offered a documented, effective and user-friendly vaccine treatment, marketed as a registered drug for self-administration.

Consequently, GRAZAX® and the coming tablet-based allergy vaccines in the pipeline have the potential to expand the market for allergy vaccination to include a much larger number of patients than today.

During the past year, ALK-Abelló continued the GRAZAX® development program, among other things to document the tablet's beneficial long-term efficacy and to expand the approval to include children. ALK-Abelló has also started clinical development of tablets to treat house dust mite and ragweed allergies.

The launch of tablet-based allergy vaccines is a crucial component of ALK-Abelló's corporate mission:

To improve quality of life by preventing and curing allergy.

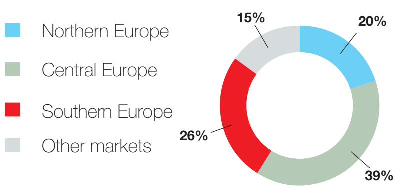
Yours sincerely

**Jørgen Worning**
Chairman

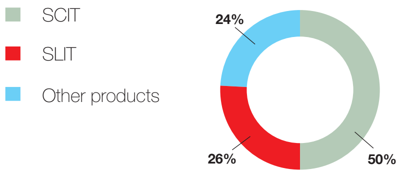
**Jens Bager**
President and CEO

# Highlights 2005/06

**Revenue by market**




**Revenue by product line**




SCIT: injection-based allergy vaccines
SLIT: drop-based allergy vaccines

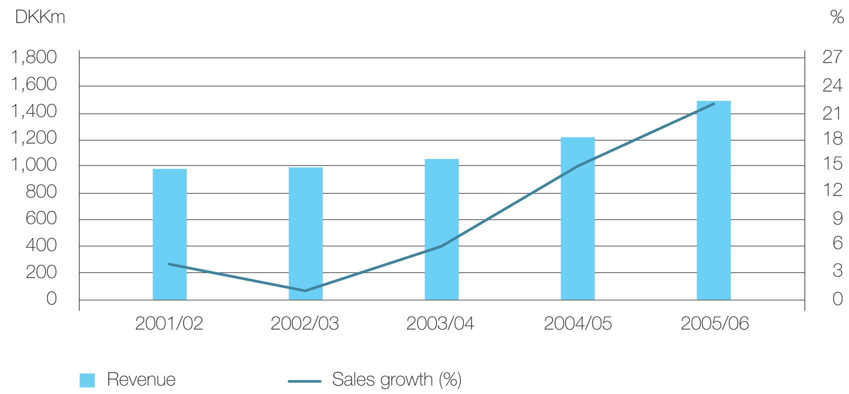
## Financial performance

- Revenue increased by 22% to DKK 1,489 million (1,217), which was in line with the forecast. The organic growth rate was 9% (15).
- Operating profit (EBIT) for the core business was DKK 276 million (240), equivalent to a 15% increase in EBIT for the core business before special items.
- Pipeline costs were DKK 223 million (192) and primarily related to the development of tablet-based vaccines.
- Total operating profit (EBIT) was DKK 53 million (2), which was in line with the most recently forecast level of DKK 45-55 million.
- Profit before tax (EBT) was DKK 93 million (a loss of 66), which was on a level with the forecast of a profit before tax of DKK 80-100 million.

## Business-related events

- At the annual general meeting held on December 13, 2005, a resolution was passed to merge Chr. Hansen Holding A/S and ALK-Abelló A/S, with ALK-Abelló A/S as the continuing company listed on the Copenhagen Stock Exchange.
- Effective January 1, 2006, ALK-Abelló A/S took over Schering AG's 50% interest in the German-based sales subsidiary ALK-Scherax.
- On March 14, 2006, the Swedish Medical Products Agency approved ALK-Abelló's tablet-based immunotherapy, GRAZAX®, for the treatment of grass pollen allergy. After that, the mutual recognition procedure in Europe was initiated.
- ALK-Abelló continued its development program for GRAZAX® in the 2005/06 financial year, including clinical studies aimed at a widening of the approval to include children. In addition, the so-called GT-08 study continued with a view to documenting the beneficial long-term effect of GRAZAX®. ALK-Abelló has also begun the clinical development of tablets for house dust mite and ragweed allergies.
- At the annual general meeting to be held on December 19, 2006, the Board of Directors intends to propose a resolution to change the financial year to the calendar year effective January 1, 2007.

**Revenue**



### Material events after the balance sheet date

- On September 25, 2006, ALK-Abelló's tablet-based vaccine against grass pollen allergy, GRAZAX®, was approved in 27 European countries based on the mutual recognition procedure initiated in April 2006.
- In November 2006, GRAZAX® was launched in Germany as a treatment eligible for full reimbursement.

### Outlook for the four-month financial statements for 2006 (September 1 - December 31)

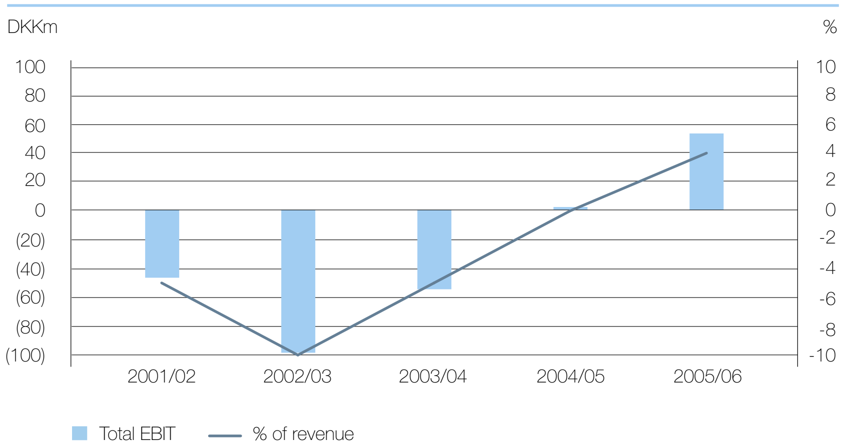
For the transitional period September 1 - December 31, 2006, revenue is forecast at approximately DKK 560 million with year-on-year organic growth of 6-8%. Operating profit (EBIT) is forecast at approximately DKK 10 million. Profit is especially affected by costs for Phase II/III studies of a tablet-based vaccine against house dust mite allergy and considerable costs of launching GRAZAX® in Europe. Profit before tax (EBT) is forecast at approximately DKK 20 million.

Both EBIT and EBT are sensitive to changes in revenue. In the four-month period, a change in revenue by 1% would have an effect on both EBIT and EBT of approximately DKK 3 million.

In connection with the sale of the ingredients business in 2004/05, ALK-Abelló A/S assumed the usual representations and warranties to the buyer, which will expire successively over the next few years. DKK 140 million was set aside to cover specific risks. Some of these risks will expire during the four-month period and will be reversed during the period, if the provisions are not used. The forecast for the four-month period above does not include any reversal of provisions.

On March 2, 2007, the outlook for the 2007 financial year will be published in the ALK-Abelló Group's four-month financial statements for 2006.

**EBIT**



# Statement by the Management and auditors' report

## Statement by the Management

The Board of Directors and the Board of Management today considered and adopted the annual report for the financial year September 1, 2005 - August 31, 2006. The annual report is presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for the annual reports of listed companies. The Management's review gives a true and fair description of the Group's and the Parent Company's activities, position and outlook. We consider the accounting policies to be adequate, to the effect that the financial statements of the Group and the Parent Company give a true and fair view of the Group's and the Parent Company's assets, equity and liabilities, financial position, results of operations and cash flows. We recommend that the annual report be adopted by the shareholders at the annual general meeting.

Hørsholm, November 20, 2006

**Board of Management**

| | |
|---|---|
| Jens Bager<br>President and CEO | Anders Hedegaard |
| Henrik Jacobi | Flemming Steen Jensen |
| Jutta af Rosenborg | |

**Board of Directors**

| | |
|---|---|
| Jørgen Worning<br>Chairman | Thorleif Krarup<br>Vice Chairman |
| Nils Axelsen | Carsten Lønfeldt |
| Jesper Fromberg Nielsen | Anders Gersel Pedersen |
| Ingelise Saunders | Peter Adler Würtzen |

## Auditors' report

### To the shareholders of ALK-Abelló A/S

We have audited the annual report of ALK-Abelló A/S for the financial year September 1, 2005 - August 31, 2006, prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

The annual report is the responsibility of the Company's Management. Our responsibility is to express an opinion on the annual report based on our audit.

### Basis of opinion

We conducted our audit in accordance with Danish and International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual report. An audit also includes assessing the accounting policies applied and significant estimates made by the Management, as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

### Opinion

In our opinion, the annual report gives a true and fair view of the Group's and the Parent's financial position at August 31, 2006 and of the results of their operations and cash flows for the financial year September 1, 2005 - August 31, 2006 in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports of listed companies.

Copenhagen, November 20, 2006

**Deloitte**
**Statsautoriseret Revisionsaktieselskab**

| | |
|---|---|
| Jens Rudkjær<br>State Authorized<br>Public Accountant | Kirsten Aaskov Mikkelsen<br>State Authorized<br>Public Accountant |

# Management's review

## Operating review

### GRAZAX® – tablet vaccine against grass pollen allergy

After the end of the financial year, on September 25, 2006, ALK-Abelló's tablet-based vaccine against grass pollen allergy, GRAZAX®, was approved in 27 European countries based on a mutual recognition procedure initiated in April 2006.

The approvals were received on the basis of results obtained in the largest clinical development program to date in allergy vaccination. By the end of 2006, the program will include more than 2,400 patients.

In October 2005, ALK-Abelló announced the main results of its GT-08 study, which comprises 634 grass pollen allergy patients. The study shows that 82% of the patients treated with GRAZAX® felt "better" or "much better" compared with earlier pollen seasons.

At the annual congress of the European Academy of Allergology and Clinical Immunology (EAACI) in Vienna in June 2006, ALK-Abelló presented additional data from the GT-08 study, documenting that the effect of GRAZAX® treatment sets in as early as the first day of the grass pollen season. The GT-08 study will continue in the years ahead in order to document the beneficial long-term effect of GRAZAX®.

ALK-Abelló has initiated clinical studies aimed at expanding the GRAZAX® approvals to cover children under the age of 18. So far, two tolerability studies (GT-09 and GT-11) have been completed. Focusing on safety, both studies documented that GRAZAX® is well-tolerated by children in treatment. After the end of the financial year, ALK-Abelló launched a Phase III study in Germany to determine tablet efficacy in the treatment of children (GT-12). The study will be performed during the 2007 grass pollen season as a multi-center, randomized, double-blind and placebo-controlled trial.

**Current clinical studies with ALK-Abelló's tablet-based products**

| Product | Study | Objective |
|---|---|---|
| GRAZAX® | GT-08<br>GT-09, GT-11<br>GT-12 | Study continued in order to document long-term efficacy<br>Studies of safety in treatment of children<br>Study of efficacy in treatment of children |
| Tablet against house dust mite allergy | MT-01<br>MT-02 | Tolerability study in adult, allergic patients<br>Dosage/efficacy study in adult, allergic patients |
| Tablet against ragweed allergy | RT-01 | Tolerability study in adult, allergic patients |

### Tablet vaccine against house dust mite allergy

In the 2005/06 financial year, ALK-Abelló completed a clinical Phase I/IIa study (MT-01) of the company's tablet-based vaccine against house dust mite allergy. The study concluded that the tablet-based vaccine is well-tolerated and eligible for further clinical development.

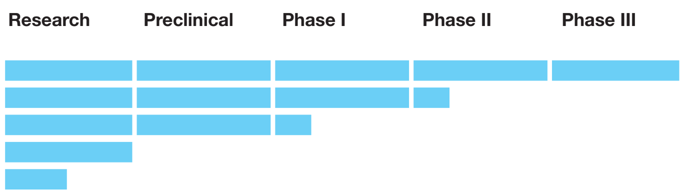
In the autumn of 2006, ALK-Abelló initiated a large Phase II/III dosage/efficacy study in Europe (MT-02). The study will be performed as a multi-center, randomized, double-blind and placebo-controlled trial that will continue throughout the 2007 calendar year.

### Tablet vaccine against ragweed allergy

In the 2005/06 financial year, ALK-Abelló initiated a clinical study (RT-01) in the USA with a tablet-based vaccine against ragweed allergy. The study is a Phase I tolerability study designed to evaluate the dosage and safety of the tablet in adult patients suffering from hay fever caused by allergy to ragweed pollen. Ragweed pollen is one of the most frequent causes of allergy and hay fever on the North American continent, where some 30 million allergy patients suffer from this type of pollen allergy. Ragweed allergy is very rare in Europe.

**Pipeline**

| Product type | Active ingredient | Indication |
|---|---|---|
| GRAZAX® | Biological grass pollen allergen | Rhinitis |
| Tablet | Biological house dust mite allergen | Rhinitis/asthma |
| Tablet | Biological ragweed allergen | Rhinitis |
| Tablet | Biological birch pollen allergen | Rhinitis |
| Tablet | Second generation tablet vaccines | Rhinitis/asthma |



### Injection-based allergy vaccine in the UK

In continuation of the GRAZAX® approval in the UK, ALK-Abelló decided to discontinue its efforts to register an injection-based allergy vaccine against grass pollen allergy in the UK and instead focus on launching tablet-based vaccines.

### Full ownership of sales subsidiaries

Effective January 1, 2006, ALK-Abelló A/S purchased Schering AG's 50% interest in the German-based sales subsidiary ALK-Scherax for a price of approximately DKK 275 million. At the same time, ALK-Abelló took over the activities of a former Swiss distributor and established its own sales subsidiary in Zurich.

**Income statement**

| Amount in DKKm | 2005/06 | % | 2004/05 | % |
|---|---|---|---|---|
| **Revenue** | **1,489** | ***100*** | 1,217 | *100* |
| Cost of sales | **497** | ***33*** | 413 | *34* |
| **Gross profit** | **992** | ***67*** | 804 | *66* |
| Research and development expenses | **282** | ***19*** | 232 | *19* |
| Sales, marketing and administrative expenses | **658** | ***44*** | 525 | *43* |
| Other operating income | **1** | - | 1 | - |
| **Operating profit before special items** | **53** | ***4*** | 48 | *4* |
| Settlement of share options | - | - | 46 | *4* |
| **Operating profit (EBIT)** | **53** | ***4*** | 2 | - |
| Financial income | **48** | ***3*** | 15 | *1* |
| Financial expenses | **8** | ***1*** | 83 | *7* |
| **Profit before tax (EBT)** | **93** | ***6*** | (66) | *(5)* |
| Tax on profit | **49** | ***3*** | 2 | - |
| **Net profit** | **44** | ***3*** | (68) | *(6)* |

## Financial review

The 2005/06 financial year was ALK-Abelló's first full financial year as an independently listed company after the divestment of its ingredients business, Chr. Hansen.

**Revenue** for 2005/06 was DKK 1,489 million (1,217), representing a 22% (15) year-on-year increase. Adjusted for the acquisition of French-based Allerbio S.A. on June 29, 2005, the rate of organic growth was 9% (15). Exchange rates did not generally affect revenue.

In the 2005/06 financial year, all regions generated organic growth, and satisfactory sales growth was achieved in most geographic markets.
In the Northern European Region, which accounts for 20% of revenue and comprises the Nordic Region, the UK and the Netherlands for reporting purposes, a 14% increase in revenue was recorded, primarily as a result of continuing growth in sales of EpiPen® in the UK.

In Central Europe, the favourable effect of the reduction of the mandatory discount in Germany was partially offset by a mild pollen season in 2005, resulting in an overall rate of sales growth in Central Europe of 9%. Central Europe, which comprises Germany, Austria and Switzerland, continued to be the Group's largest region, accounting for 39% (44) of revenue.

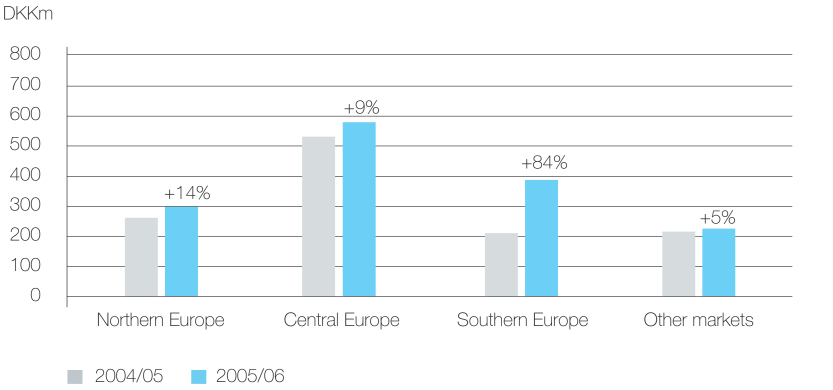
Revenue from the Southern European Region – Spain, Italy and France – increased by 84% and currently accounts for 26% (17) of total revenue. The growth in this region was affected by the takeover of French-based Allerbio in June 2005.

In other markets, revenue increased by 5%, primarily as a result of continuing growth in the USA. Other markets comprise the USA, China and the rest of the world and account for 15% (18) of revenue.

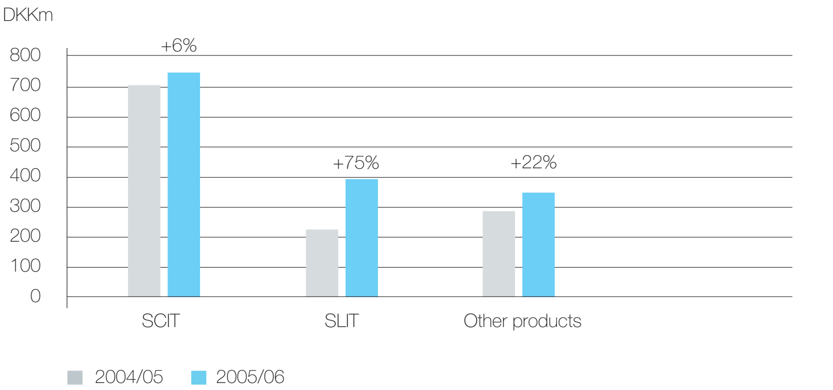
Sales of allergy vaccines, which account for the predominant share of total revenue, showed satisfactory growth at a combined 23%, with increases in both initial and maintenance treatments. Sales of injection-based allergy vaccines (SCIT), which accounted for 50% (58) of total revenue, increased by 6% and were adversely affected by the mild pollen season in 2005, among other things. Sales of drop-based products (SLIT) increased by 75% and now account for 26% (18) of total revenue. Adjusted for the favourable effect of the Allerbio acquisition, revenue from SLIT products continued to grow at a higher rate than revenue from SCIT products.

Revenues from other products (diagnostics, EpiPen® and other trading goods) increased by 22% and accounted for 24% (24) of total revenue. This growth primarily reflects the increase in sales of EpiPen®.

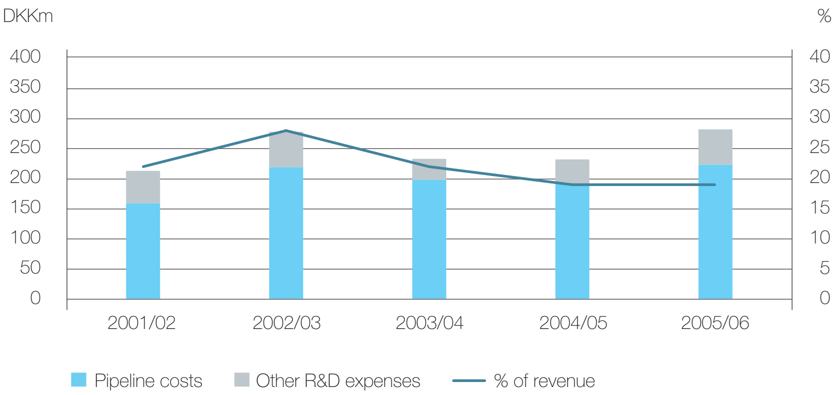
**Revenue by market**




**Revenue by product line**




**Research and development expenses**




**Cost of sales** amounted to DKK 497 million (413), which brought gross profit to DKK 992 million (804). The gross margin rose to 67% (66).

**Research and development expenses** totalled DKK 282 million (232), equivalent to 19% (19) of revenue and related to the development and optimization of both existing and tablet-based allergy vaccines. The acquisition of French-based Allerbio had an effect on other research and development expenses in 2005/06.

**Capacity costs** relating to sales, marketing and administration increased by 25% to reach DKK 658 million (525). The increase was mainly related to increased sales and marketing activities, including costs related to the launch of GRAZAX® and the acquisition of French-based Allerbio.

**Operating profit (EBIT) for the core business** was DKK 276 million, equivalent to a 15% increase over last year, when EBIT for the core business before special items was DKK 240 million.

**Pipeline costs** were DKK 223 million (192) and primarily related to the development of tablet-based vaccines.

**Total operating profit (EBIT)** was DKK 53 million (2).

After net financials, which amounted to a profit of DKK 40 million, **profit before tax (EBT)** reached DKK 93 million, up from a loss of DKK 66 million in 2004/05.

**Tax on profit** amounted to DKK 49 million (2), corresponding to an effective tax rate of 53%, and the **net profit** was DKK 44 million, compared to a loss of DKK 68 million for the continuing operations in the previous financial year. The effective tax rate should be seen in light of the fact that the Group's research and development expenses, etc. are incurred in Denmark by ALK-Abelló A/S, and that most of the Group's revenues can be attributed to foreign subsidiaries, some of which are located in countries with high corporate tax rates.

The DKK 60 million **cash flow from operating activities** was favourably affected by the improvement in EBIT and a favourable change in working capital.

**Free cash flow for the year** was an outflow of DKK 310 million, which was significantly affected by acquisitions of companies and operations, including the purchase of the remaining interest in German-based subsidiary ALK-Scherax from Schering AG on January 1, 2006, at a price of approximately DKK 275 million.

**Cash flow from financing activities** included the distribution of an interim dividend of DKK 4,000 million in October 2005 after divestment of the ingredients business. Overall, cash and cash equivalents were reduced by DKK 4,471 million and stood at DKK 1,069 million at year-end.

The Board of Directors has considered ALK-Abelló's strategic plan for the coming five years. In that connection, it was decided to maintain the company's capital base at the present level for the time being in order to support further development of the company.

**EBIT**

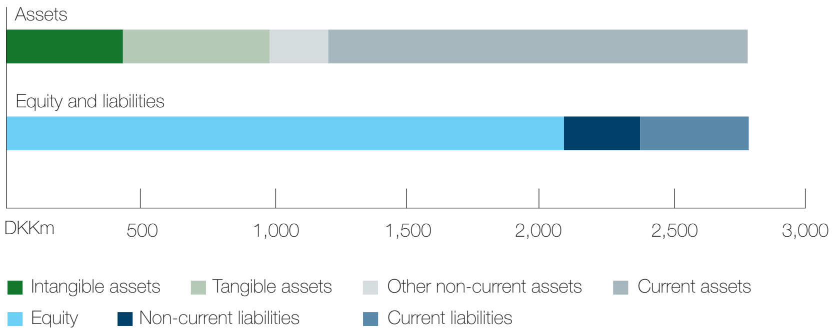
| DKKm | 2005/06 | 2004/05 |
|---|---|---|
| Core business* | 276 | 240 |
| Pipeline | (223) | (192) |
| EBIT* | 53 | 48 |
| EBIT % of revenue | *4* | *4* |

* before special items
Costs related to the launch of GRAZAX® have been recognized under core business

**Cash flow**

| DKKm | 2005/06 | 2004/05 |
|---|---|---|
| Net profit | 44 | (68) |
| Adjustments | (6) | 109 |
| Change in working capital | 22 | 134 |
| **Cash flow from operating activities** | 60 | 175 |
| **Cash flow from investing activities** | (370) | 30 |
| **Free cash flow** | (310) | 205 |
| **Cash flow from financing activities** | (4,160) | (1,065) |
| **Cash flow from discontinued operations** | - | 6,277 |
| **Net cash flow** | (4,470) | 5,417 |
| Cash and cash equivalents at September 1 | 5,540 | 123 |
| Net cash flow | (4,470) | 5,417 |
| Exchange rate adjustments | (1) | - |
| **Cash and cash equivalents at August 31** | 1,069 | 5,540 |

**Breakdown of the balance sheet as at August 31, 2006**



**Equity** was reduced substantially in the course of the year as a result of the distribution of an interim dividend of DKK 4,000 million in October 2005 and stood at DKK 2,094 million (6,208) at year-end, corresponding to a reduction in equity ratio to 75% (90).

## Transition to IFRS/IAS

As stated in the 2004/05 annual report, the annual and interim reports of the ALK-Abelló Group will be presented in accordance with the International Financial Reporting Standards (IFRS) starting with the 2005/06 financial year. The comparative figures for 2004/05 have been restated to reflect the new accounting policies.

Thus, this annual report is presented in accordance with the provisions of IFRS as well as Danish disclosure requirements for annual financial reporting for listed companies.

Note 1 to this annual report contains further details on the areas of the ALK-Abelló Group's financial statements affected by the transition, and the effects on the comparative figures for 2004/05 are disclosed in note 38.

Financial highlights and key ratios for the years 2001/02-2003/04 have not been restated to IFRS.

## Change in financial year

Against the background of a change in joint taxation rules and a financial year that is unsuitable for ALK-Abelló in view of the great seasonal variations in sales, the Board of Directors intends to propose a resolution for adoption by the shareholders at the annual general meeting to change the company's financial year to the calendar year effective January 1, 2007. As a consequence, ALK-Abelló intends to present financial statements for the four-month period from September 1 - December 31, 2006, which are expected to be released on March 2, 2007. The change of financial year must be adopted by the shareholders at the annual general meeting to be held on December 19, 2006.

## Outlook for the four-month financial statements for 2006 (September 1 - December 31)

For the transitional period September 1 - December 31, 2006, revenue is forecast at approximately DKK 560 million with year-on-year organic growth of 6-8%. Operating profit (EBIT) is forecast at approximately DKK 10 million. Profit was especially affected by costs of Phase II/III studies of a tablet-based vaccine against house dust mite allergy and the considerable cost of launching GRAZAX® in Europe. Profit before tax (EBT) is forecast at approximately DKK 20 million.

Both EBIT and EBT are sensitive to changes in revenue. In the four-month period, a change in revenue by 1% would have an effect on both EBIT and EBT of approximately DKK 3 million.

In connection with the sale of the ingredients business in 2004/05, ALK-Abelló A/S assumed the usual representations and warranties to the buyer, which will expire successively over the next few years. DKK 140 million was set aside to cover specific risks. Some of these risks will expire during the four-month period and will be reversed during the period, if the provisions are not used. The forecast for the four-month period above does not include any reversal of provisions.

On March 2, 2007, the outlook for the 2007 financial year will be published in the ALK-Abelló Group's four-month financial statements for 2006.

## Events after the balance sheet date

After the end of the financial year, the following material events have occurred: In September 2006, GRAZAX® was approved in 27 European countries and subsequently in November 2006, the tablet was launched in Germany. A Phase III effect study in children (GT-12) has also been initiated.

*This annual report contains forward-looking statements, including forecasts of future revenue and operating profit. Such statements are subject to risks and uncertainties because various factors, some of which are beyond the control of the ALK-Abelló Group, may cause actual results and performance to differ materially from the forecasts made in this annual report. Factors that may affect such expectations include, among others, overall economic and business conditions, fluctuations in currencies, demand and competitive factors. This annual report has been translated from Danish into English. However, the Danish text is the governing text for all purposes, and if there is any discrepancy, the Danish wording is applicable.*

# Risk management

Doing business in the pharmaceutical industry is subject to risk. For this reason, ALK-Abelló endeavours at all times to manage the risks that are of specific significance to the company and characteristic of the pharmaceutical industry.

The following risks are of particular significance to ALK-Abelló:

## Commercial risks

### Risks relating to regulation and price control

ALK-Abelló's products are subject to a large number of statutory and regulatory requirements with respect to issues such as safety, effect and production. In many cases, the national authorities also set or restrict the product price through reimbursements. In most of the countries in which ALK-Abelló operates, prescription drugs are subject to reimbursements from and price control by national authorities. This often results in major price differences on the individual markets. Regulatory intervention and price control may therefore have a significant impact on the company's earnings capacity. As an example, in 2004 the German authorities dictated a temporary increase in the mandatory price reduction on drugs from 6% to 16%. The price reduction was subsequently lowered to 6% in January 2005, and a two-year price stop was implemented for all prescription drugs effective April 1, 2006.

### Risks related to the development of new drugs

The future success of ALK-Abelló depends on the company's ability to successfully identify, develop and market new, innovative drugs, and this involves significant risks. Before a pharmaceutical drug can be approved for marketing, it must be subjected to very extensive and lengthy clinical trials to document aspects such as safety and efficacy. In the course of the development process, the outcome of the clinical trials is subject to significant risks. Even though substantial resources are invested in the development process, the trials may produce negative results. Delays in obtaining regulatory approvals – or failure to obtain such approvals – may also have a major impact on the ability of ALK-Abelló to achieve its long-term goals.

ALK-Abelló makes thorough risk assessments of its research and development programs in a continuing process before they are moved forward in the development process and into the final registration process. This is done to optimize the probability that the products reach the market.

### Risks relating to competition

ALK-Abelló operates in markets characterized by intense competition. If, for instance, a competitor launches a new and more effective treatment of allergy, it may have a material impact on ALK-Abelló's sales. A competitive market may also lead to market-driven price reductions or price reductions dictated by the regulatory authorities.

Both competition and price are risks that may have a material impact on ALK-Abelló's ability to achieve its long-term goals. ALK-Abelló therefore monitors economic developments, the competitive situation and initiatives on all important markets.

### Risks relating to patents and intellectual property rights

Patents and other intellectual property rights are important for developing and retaining ALK-Abelló's competitive strength. The risk that ALK-Abelló infringes patents or trade mark rights held by other companies and the risk that other companies may attempt to infringe the patents and trade mark rights of ALK-Abelló are monitored and, if necessary, suitable measures are taken.

### Risks relating to production and quality

ALK-Abelló has concentrated most of its production capacity at factories in Denmark, France, Spain and the USA. Although the factories are located in areas that have not historically been hit by natural disasters, this geographical diversification calls for risk planning in order to avoid emergency situations such as lack of or poor access to raw materials such as pollen. This planning includes the prevention of unwanted events and preventive inventory management; an example is the build up of contingency inventories in order to ensure an unbroken chain of production.

Production and the manufacturing processes are also subjected to periodic and routine inspections by the regulatory authorities as a regular part of their monitoring process in order to ensure that all manufacturers observe the prescribed requirements and standards.

Meeting these quality standards is a prerequisite for the company's competitive strength. ALK-Abelló's production processes and quality standards have been developed and optimized over many years. Regular inspections by the regulatory authorities at ALK-Abelló did not give rise to any material comments in the past year.

## Risks relating to key employees
ALK-Abelló is dependent on being able to attract and retain employees in key positions. A loss of key employees may have a material impact on the company's market and research efforts. ALK-Abelló is managing this risk, among other things, by continuously offering its staff professional development opportunities and fair compensation.

# Financial risks

The goal of ALK-Abelló's financial risk management is to reduce the sensitivity of earnings to fluctuations in exchange rates, interest rates, credit rating and liquidity.

## Foreign exchange risk
The most significant financial risk relates to exchange rate fluctuations. The exposure is most substantial to EUR and USD, as 74% of the ALK-Abelló Group's revenue is denominated in EUR and 11% in USD. As the costs of the company's subsidiaries are in local currencies, the sensitivity at EBIT level is reduced. Accordingly, the exposure to USD is negligible at EBIT level.

Currency translation adjustments relating to sales and costs denominated in other currencies than DKK are recognized in the income statement. In addition, ALK-Abelló is exposed to the exchange rate risks that relate to the translation into DKK of the net assets of its foreign subsidiaries. In accordance with the accounting policies, such currency translation adjustments are recognized directly in equity.

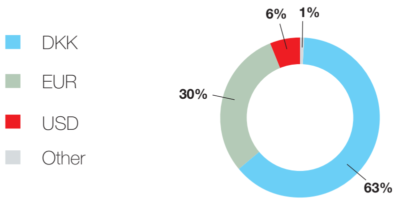
## Net assets by currency
Intercompany sales are generally invoiced in the currency of the buying country. Thus, the currency exposure is limited to Denmark and the other three production countries: Spain, France and the USA.

The foreign exchange risk is generally deemed to be limited. Foreign exchange exposure relating to future transactions and assets and liabilities is evaluated and secured by instruments such as forward currency contracts. This serves to limit the impact of any currency fluctuations on the financial results. The exchange rate exposure relating to net investments in foreign subsidiaries is not hedged by forward currency contracts. Hedging instruments are not used for speculative purposes.

## Interest rate and liquidity exposure
At the end of the financial year, net interest-bearing assets stood at approximately DKK 1,000 million. Excess liquidity from, among other things, the divestment of the ingredients business, is invested in investment-grade, liquid, interest-bearing instruments with a relatively short duration.

## Credit exposure
The credit exposure in connection with financial instruments is managed by using only financial institutions with satisfactory creditworthiness, in Denmark as well as abroad. Trade receivables are monitored closely at the local level and are distributed on a number of markets and customers. The credit risk is therefore considered low.

**Net assets by currency as at August 31, 2006**



# Growth and challenges for ALK-Abelló employees

ALK-Abelló has increased its revenue per employee from DKK 0.96 million in 2001/02 to DKK 1.18 million in 2005/06 by continuously raising the efficiency of operations without substantially increasing the total number of employees. With the introduction of GRAZAX®, sales growth is expected to accelerate further, as is the number of employees in the coming years, particularly within sales and marketing.

To date, ALK-Abelló has been able to fill all positions with well-qualified employees. However, the pharmaceutical sector is subject to keen competition for well-qualified employees. It is predicted that the future labour market will be characterized by greater mobility, falling birth rates and declining unemployment. Therefore, it is crucial that ALK-Abelló continues to attract and retain skilled and committed employees.

## 2006 employee satisfaction survey shows improvement

ALK-Abelló conducts employee satisfaction surveys every two years. The latest survey from 2006 shows that satisfaction with the company is increasing. The survey reveals improvement in 27 of the 30 areas in which the employees have rated the company. At the same time, the response rate rose to 81% of employees (74% in 2004).

Ron Wolters, Regulatory Affairs Officer, ALK-Abelló, Hørsholm, Denmark

**Employees by employee group**

| | 2001/02 | 2002/03 | 2003/04 | 2004/05 | **2005/06** |
|---|---|---|---|---|---|
| Production | 452 | 447 | 453 | 515 | **509** |
| Sales | 277 | 282 | 278 | 345 | **402** |
| Administration | 133 | 123 | 123 | 140 | **150** |
| Research & Development | 156 | 187 | 176 | 188 | **205** |
| *Revenue per employee* | *963* | *954* | *1,023* | *1,024* | ***1,176*** |
| Total | 1,018 | 1,039 | 1,030 | 1,188 | **1,266** |

ALK-Abelló has expanded its sales force in support of the launch preparations for GRAZAX®

Anabel Huescar, Sales Representative, ALK-Abelló, Madrid, Spain

**ALK-Abelló's employee satisfaction survey 2006**

Top 5:

1. *My department produces results*
   **89%** "agrees" or "agrees entirely"

2. *I think the ALK-Abelló Group will develop positively*
   **88%** "agrees" or "agrees entirely"

3. *I know which goals I am expected to achieve*
   **87%** "agrees" or "agrees entirely"

4. *I have capable colleagues in my department*
   **87%** "agrees" or "agrees entirely"

5. *The ALK-Abelló Group's pipeline of new and improved products secures our future*
   **85%** "agrees" or "agrees entirely"

ALK-Abelló will continue to focus on readiness for change and professional and personal development. These are areas in which future challenges will require a special effort. The decision has also been made to direct focus at achieving the right balance between employees' working life and private life, which can be difficult for each employee to maintain in a period of increasing commitment, empowerment and challenge.

## Competence development of employees and managers

In the financial year 2005/06, ALK-Abelló launched an employee competence development project, which will gradually be implemented in the company on a global basis. In autumn 2006, ALK-Abelló also launched a comprehensive management development program. This program will include all managers within a few years.

# Environment and safety

**Key figures for consumption of resources and environmental impacts. Data for 2004/05 equal index 100**

| Indicator | 2005/06 | Index | 2004/05 |
|---|---|---|---|
| Energy consumption, MWH | **19,075** | **106** | 18,078 |
| Water consumption, $m^3$ | **62,571** | **107** | 58,449 |
| Waste, tons | **257** | **102** | 251 |
| of which is recycled, % | **37** | **100** | 37 |

**Data**

- Environment and safety data reproduced in this report were collected from sites (production, research and development, administration) in Hørsholm and Stenløse (Denmark), Madrid (Spain) and Port Washington, Round Rock, Spokane and Spring Mills (USA), comprising 65% of the workforce of ALK-Abelló.

ALK-Abelló works purposefully and systematically to improve the working environment and to reduce impacts on the external environment. The company has established a management system and a cross-organizational structure for work on safety, health and environment (SHE).

Overall, ALK-Abelló's production is clean, and also lean in volume terms. The raw materials are naturally occurring biological materials. The most significant environmental impacts occur at the production sites in Hørsholm and Stenløse (Denmark), Madrid (Spain), Vandeuil (France), Port Washington, Spokane and Spring Mills (USA).

In recent years, and in connection with the implementation of a safety, health and environment system based on the guidelines for OHSAS 18001 and ISO 14001, systematic records have been kept of the total consumption of raw materials and energy as well as waste water and waste discharges. Key figures for the highest impacts, in relative terms, are set out in the table to the left. The increased consumption of energy and water is mainly due to the commissioning of new production facilities.

Lani Bierly, Production Technician, ALK-Abelló, Spring Mills, USA

## Compliance with environmental requirements

As in the previous year, there were no instances of non-compliance with statutory requirements, including environmental requirements in 2005/06. There were no breaches of regulatory limit values or accidental releases.

## Occupational health and safety

A key occupational health and safety indicator is the frequency of occupational injuries. The table to the right shows the same level of occupational injuries as in 2004/05. All seven occupational injuries can be described as minor accidents.

## Goals

The long-term goal is to increase the efficiency of processes and activities through continuous improvements so that the environmental impact per treatment year produced may be constantly reduced.

These impacts include consumption of raw materials, energy, water and other resources, and the discharge of waste water and airborne emissions, and waste disposal. Additional to these are improvements to occupational health and safety.

**Occupational injuries**

| Indicator | 2005/06 | 2004/05 |
|---|---|---|
| Number of occupational injuries resulting in sick leave | **7** | 7 |
| Injury frequency (per million working hours) | **4.8** | 4.9 |

**Definitions**

- Occupational injury: An injury which subsequently results in one or more days of sick leave in addition to the day of the injury.
- Injury frequency: The number of occupational injuries divided by the total number of working hours performed by the total number of employees in the same period of time.

# Imagine life without allergy

"I will not let allergy stand in the way of reaching my goals."

**Claus H. Bloch, orienteering world championship bronze-medallist 2006, Denmark**
Allergic to grass and birch pollen

PHOTO: PREBEN HUPFELD

# Shareholder information

It is the goal of ALK-Abelló to increase the awareness of the company and its activities through a structured, ongoing, timely and balanced dialogue with investors, shareholders and other stakeholders. This is done in accordance with the framework for good investor relations and the rules applicable to companies listed on the Copenhagen Stock Exchange. It is also a company goal to increase the liquidity of the company's shares and to generate reasonable, long-term returns to shareholders through share price increases and dividends.

### Securities identification code and share capital

ALK-Abelló's shares are listed on the Copenhagen Stock Exchange (the OMX Group) under the symbol ALK B, and the securities identification code (ISIN) is DK0060027142. The company's shares are included in the following indices: Nordic Large Cap, OMXCPI, MidCap+ and KFMX.

The issued share capital of the company consists of 10,128,360 shares with a nominal value of DKK 10, equivalent to a total nominal share capital of DKK 101,283,600. The share capital consists of 920,760 A shares and 9,207,600 B shares. It is the B shares that are listed on the Copenhagen Stock Exchange. Each A share carries ten votes, and each B share carries one vote. No changes were made to the share capital during the financial year.

In connection with the merger of Chr. Hansen Holding A/S and ALK-Abelló A/S in December 2005, the shares were exchanged to the effect that A and B shares of DKK 10 in Chr. Hansen Holding A/S were exchanged for a corresponding number of A and B shares of DKK 10 in ALK-Abelló A/S.

### Registrar

VP Securities (Værdipapircentralen A/S)
Aktiebogsafdelingen
Helgeshøj Allé 61
DK-2630 Taastrup
Denmark

The company's former registrar, Danske Bank, sold its registrar activities to VP Securities on June 1, 2006.

Management urges all shareholders to have their shares registered in the company's register of shareholders.

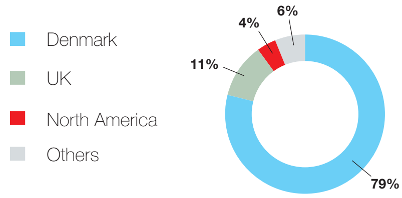
### Ownership

On August 31, 2006, the shareholders listed in the table below had notified the company pursuant to section 28(a) and (b) of the Danish Public Companies Act that they hold 5% or more of the company's shares.

As at October 31, 2006, ALK-Abelló A/S had 7,051 registered shareholders, up from 6,210 last year. The registered shareholders represent 86% of the share capital, and approximately 500 of these shareholders are foreign shareholders, holding approximately 18% of the share capital.

The company estimates that a significant part of the remaining 14% of the share capital, which is unregistered, is held by investors outside Denmark. Management estimates that more than 70% of the B shares are held by institutional investors.

**Registered shareholders by geography**




### Share price performance

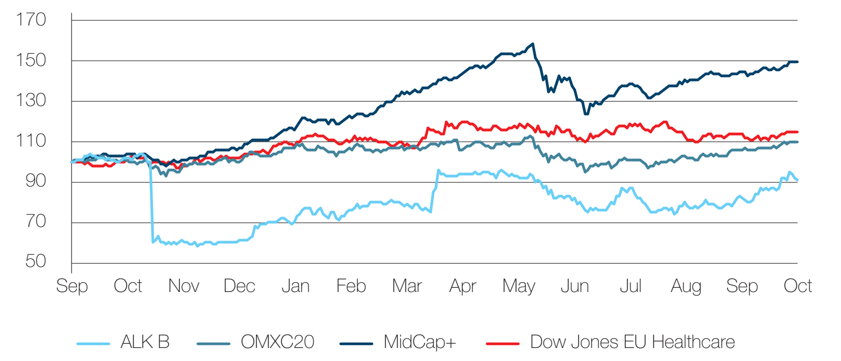
The price of ALK-Abelló's shares was DKK 765 per share as at August 31, 2006, representing a 36% year-on-year increase when allowing for dividends paid, which totalled DKK 400 per share in 2005/06. October 14, 2005 was the first day the shares were traded ex the interim dividend of DKK 395 per share, and the share price consequently dropped by approximately 40% to DKK 572 per share on that day, corresponding to the value of the interim dividend. As was the case last year, the share price outperformed the Copenhagen Stock Exchange all-share index (the KAX index), the ultra-liquid shares in the OMXC20 index and the shares in the MidCap+ index.

The volume of B shares traded during the period from September 1, 2005 - August 31, 2006 was approximately 10 million B shares with a total market value of DKK 7,000 million. This corresponded to an average of DKK 27 million per trading day.

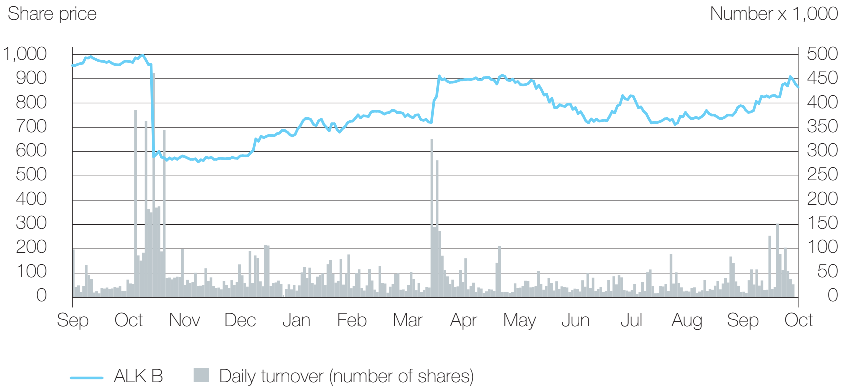
**Shareholders holding 5% or more of the company's shares as at August 31, 2006**

| | Registered office | A shares, number | B shares, number | Interest | Votes |
|---|---|---|---|---|---|
| LFI a/s | Hellerup, Denmark | 919,620 | 2,649,130 | 35.2% | 64.3% |
| The Labour Market Supplementary Pension Scheme (ATP) | Hillerød, Denmark | - | 693,793 | 6.8% | 3.8% |
| **Total major shareholders** | | | | **42.0%** | **68.1%** |

**Relative share price development**




**Share price and turnover**




## Dividend policy

ALK-Abelló A/S pays dividends taking into account actual earnings, the risk management, strategy and investment plans.

At the annual general meeting to be held on December 19, 2006, the Board of Directors intends to propose an ordinary dividend of DKK 5 per share of DKK 10.

Payment of the ordinary dividend in respect of 2005/06 is expected to take place on December 27, 2006.

## Share option plan

The Board of Directors resolved in March to grant share options to the members of the Board of Management and a number of senior managers. The accounting cost relating to the plan is expected to be a total of DKK 14 million which will be recognized in the income statement during the vesting period. Further details and terms of the plan are disclosed in note 7 to the financial statements.

At the end of the financial year, the company had 75,000 treasury shares, equivalent to 0.7% of the share capital. The treasury shares are primarily used to hedge the outstanding share option plan (68,000 options), whilst a minor part of the shares are used for the general employee share plan adopted during the financial year.

## Employee share plan

In August 2006, the Board of Directors passed a resolution to offer approximately 8,000 shares to the company's employees. The program is designed so that employees of the Group with at least one year's seniority as of August 31, 2006 and who were in continuing employment, were eligible to participate in the program. Employees with less than one year's seniority will be offered the same terms on August 31, 2007, provided they are still employed by the Group.

The shares will be transferred from the company's treasury shares to the employees before the end of 2006.

In certain countries, employees will instead be offered a share-like arrangement.

## Investor relations

Management and the investor relations function continuously work to further develop the dialogue with shareholders, analysts, potential investors and other stakeholders via open, honest and accessible information.

The person responsible for investor relations is:
**Per Plotnikof**
Investor Relations Manager
Tel: +45 4574 7527
Fax: +45 4574 8607
E-mail: investor@alk-abello.com

In 2005/06, more than 150 investor meetings were held in major cities in Europe and the USA. In addition, ALK-Abelló participated in various arrangements targeting private investors in Denmark, including the Annual Danish Stock Day and the Copenhagen Stock Exchange MidCap+ events in Copenhagen and Aarhus.

## Annual general meeting

The proposals to be made by the Board of Directors at the annual general meeting to be held on December 19, 2006 include:

- Change of the financial year from September 1 - August 31 to the calendar year as from January 1, 2007
- Declaration of an ordinary dividend of DKK 5 per share in respect of the 2005/06 financial year
- Authorization to the Board of Directors to acquire up to 10% of the company's treasury shares
- Authorization to the Board of Directors to declare extraordinary dividends until the next annual general meeting

## The Internet

Information on ALK-Abelló is also available at the corporate website: www.alk-abello.com. The website includes relevant investor presentations, the company's investor relations policy, a list of announcements to the Copenhagen Stock Exchange, financial statements and other relevant information.

The company invites all interested parties to register for the company's e-mail news service in order to receive information on stock exchange releases, interim financial statements and other information immediately after publication.

## Financial calendar 2006/07

| | |
|---|---|
| Annual general meeting<br>Den Sorte Diamant<br>Søren Kierkegaards Plads<br>DK-1221 Copenhagen K<br>Denmark | December 19, 2006 |

Against the background of a change in joint taxation rules and a financial year that is unsuitable for ALK-Abelló in view of the great seasonal variations in sales, the Board of Directors intends to propose a resolution for adoption by the shareholders at the annual general meeting to change the company's financial year to the calendar year as from January 1, 2007. Subject to approval of the resolution by the shareholders, the financial calendar for 2007 will be as follows.

## Financial calendar 2007

| | |
|---|---|
| Four-month financial statements for the period September 1 - December 31, 2006 and annual report for the same period | March 2, 2007 |
| Annual general meeting | April 13, 2007 |
| Three-month interim report (Q1) 2007 | May 24, 2007 |
| Six-month interim report (Q2) 2007 | August 21, 2007 |
| Nine-month interim report (Q3) 2007 | November 22, 2007 |

**Analysts**

| Securities company | Analyst | Telephone | E-mail |
|---|---|---|---|
| ABG Sundal Collier | Peter Kondrup | +45 3318 6100 | peter.kondrup@abgsc.com |
| Carnegie Danmark | Annette Lykke | +45 3288 0200 | annette.lykke@carnegie.dk |
| Danske Equities | Martin Parkhøi | +45 3344 0000 | martin.parkhoi@danskebank.com |
| Handelsbanken | Michael Novod | +45 3341 8200 | mino03@handelsbanken.se |
| SEB Enskilda | Henrik Simonsen | +45 3697 7000 | henrik.simonsen@enskilda.dk |
| Jyske Bank | Frank Hørning Andersen | +45 8922 2222 | fha@jyskebank.dk |
| Main*First* Bank AG | Dr. Marcus Wieprecht | +49 (0) 69 78808-221 | marcus.wieprecht@mainfirst.com |
| Proactive Independent Ideas | Frans Høyer | +44 7810 44 5172 | frans.hoyer@pi-ideas.co.uk |
| Sydbank A/S | Lars Villadsen | +45 3369 7800 | lars.villadsen@sydbank.dk |

# Corporate governance

In addition to undertaking the overall management of the company, it is the primary responsibility of the Board of Directors to define the strategic framework for the activities and action plans of the company and to maintain a constructive dialogue with the Board of Management regarding the implementation of the strategies laid down. In addition, the Board of Directors appoints the Board of Management, sets out its terms and tasks, and supervises its work and the company's procedures and responsibilities.

The Board of Directors consists of six members elected by the shareholders at the annual general meeting and two members elected by the employees. The age limit for members appointed by the shareholders is 70 years. ALK-Abelló believes that the Board of Directors is effectively able to manage the company as a result of its international experience and competencies in drug development, finance and general management.

Furthermore, the Board of Directors is composed in such a way that its directors are able to act independently of special interests. Two of the members elected by the company's shareholders are also members of the Board of Directors of LFI a/s. The other members elected by the shareholders are independent and have no interest in ALK-Abelló other than the interests they may have as shareholders. The Board of Directors held six meetings and one strategy seminar in the 2005/06 financial year.

## Guidelines

In 2005, the Copenhagen Stock Exchange adopted a set of recommendations on corporate governance which companies are required to consider in accordance with the "comply or explain" principle. On the basis of these recommendations, the Board of Directors of ALK-Abelló discussed the general implementation of corporate governance in the Board's work. The general principles for the specific recommendations in the reports have been applied in the Board's regular work for a number of years. ALK-Abelló meets the recommendations but has chosen different practices in the following significant areas:

- As recommended, the Board of Directors has considered whether it is suitable for the company to have different share classes. The share capital of ALK-Abelló A/S is divided into A and B shares. Each A share carries ten votes, and each B share carries one vote. The Board of Directors and Board of Management believe that the current ownership and share structure have been and continue to be appropriate with a view to ensuring the company's long-term goals and development.

- ALK-Abelló does not, as proposed in the recommendations, have any guidelines on how many directorships a board member may hold. What is important is each individual member's capacity, competencies and contribution.

- The recommendations propose that all board members should be elected for one year at a time. In ALK-Abelló, the two members elected by the shareholders at the annual general meeting who have been in office for the longest time must retire from office in order to ensure continuity in the management of the company.

- The recommendations propose that the remuneration paid to Management be disclosed in detail. ALK-Abelló believes that focus should be on the total remuneration and any increase or decrease in it. The remuneration paid to the Board of Directors and the Board of Management is disclosed in the annual report. The members of ALK-Abelló's Board of Directors do not receive any incentive-based compensation. Incentive-based compensation paid to the Board of Management is fully disclosed in the annual report in accordance with the rules applicable at the time.

With respect to the other specific recommendations in the reports, the Board of Directors includes these in its considerations on corporate governance to the effect that both the company's and the other stakeholders' interests are safeguarded in the best possible way.

Facts on the company's corporate governance, including information on annual general meetings, management, articles of association, reporting, handling of insider information and dealings in treasury shares are available at the company's website, www.alk-abello.com.

# Board of Directors

ALK-Abelló's Board of Directors visiting the new tablet packaging facility under construction in Hørsholm, Denmark

The Board of Directors from left to right:

**Anders Gersel Pedersen, 55**
First elected in 2005

H. Lundbeck A/S, Senior Vice President, Drug Development
Genmab A/S, Vice Chairman
TopoTarget A/S, Board Member.

**Carsten Lønfeldt, 59**
First elected in 2005

Coloplast A/S, Group Director
KIRKBI A/S, Board Member
Polaris Management A/S, Board Member
Investeringsforeningen Nykredit Invest, Board Member
ATP Invest, Board Member
Investin PRO F.M.B.A.

**Thorleif Krarup, 54**
Vice Chairman
First elected in 2005

H. Lundbeck A/S, Vice Chairman
LFI a/s, Vice Chairman
Bang & Olufsen a/s, Board Member
Dangaard Telecom A/S, Board Member
Group 4 Securicor plc, Board Member
Scion DTU A/S, Board Member
The Lundbeck Foundation, Board Member.

**Ingelise Saunders, 57**
First elected in 2005

ACE BioSciences A/S, President and CEO
TopoTarget A/S, Board Member
Scandinavian Life Science Venture, Board Member.

**Jørgen Worning, 66**
Chairman
First elected in 2005

Bang & Olufsen a/s, Chairman
FLSmidth & Co. A/S, Chairman.

**Nils Axelsen, 64**
First elected in 2005

LFI a/s, Board Member
The Lundbeck Foundation, Vice Chairman.

**Peter Adler Würtzen, 38**
First elected in 2003

Research Scientist, ALK-Abelló A/S
Employee-elected.

**Jesper Fromberg Nielsen, 38**
First elected in 2003

Sales & Marketing Manager, In Vitro Diagnostics Business Unit, ALK-Abelló A/S
Employee-elected.

# Board of Management

ALK-Abelló's Board of Management visiting the new tablet packaging facility under construction in Hørsholm, Denmark

The Board of Management from left to right:

**Jutta af Rosenborg, 48**
CFO, Executive Vice President, Finance & IT

Jutta af Rosenborg holds an MSc. (Business Administration and Auditing) and is a State Authorized Public Accountant from 1992. Carnegie WorldWide Fund, Board Member.

**Flemming Steen Jensen, 45**
Executive Vice President, Product Supply

Flemming Steen Jensen holds an MSc. (Pharmacy) from 1986.

**Jens Bager, 47**
President & CEO

Jens Bager holds an MSc. (Economics and Business Administration) with a major in Strategy/Marketing from 1987.

**Henrik Jacobi, 41**
Executive Vice President, Research & Development

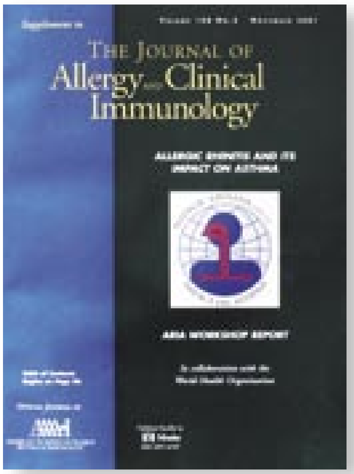
Henrik Jacobi holds a degree in Medicine from 1993.

**Anders Hedegaard, 46**
Executive Vice President, Business Operations & International Marketing

Anders Hedegaard holds an MSc. (Engineering) with a major in Chemistry from 1988.

**Shareholdings in ALK-Abelló A/S as at August 31, 2006**
The Board of Directors holds 3,929 shares and the Board of Management holds 2,705 shares in the company.

# Imagine life without allergy




ARIA (Allergic Rhinitis and its Impact on Asthma) is an international guideline for the treatment of respiratory allergy. It states that ”allergy vaccination affects the basic mechanisms of the allergy and changes the natural course of the allergic disease. This results in a reduction of symptoms and offers the patient a long-lasting and preventive effect” (ARIA 2004)

Up to a quarter of the population in the industrialized world suffers from allergy, and the number is increasing. Allergy is an overreaction of the immune response to substances that are otherwise harmless. The most common allergies are caused by airborne particles from for instance pollen or house dust mites. For people with allergy, these allergens cause chronic or seasonal respiratory conditions such as hay fever or asthma.

Allergy significantly reduces the quality of life for many people, affecting both their private and professional lives. Coping with itching eyes and a blocked nose has its costs for the individual and for society in general in terms of poorer quality of life, days lost through sickness, and the costs of medical care and medication.

Yet, the majority of allergic patients are exclusively offered medication to relieve the symptoms of allergy; this medication does not treat the allergy itself. Moreover, most patients find that such medication has “no” to “moderate” effect on their symptoms. This is revealed by a survey conducted by the European Federation of Allergy and Airways Diseases Patients’ Associations (EFA).

## Imagine life without allergy

”I want to do cleaning, gardening, folding laundry on the terrace or go for a walk in the park without having to worry about coughing and sneezing.”

**Azucena Casado de Blas and daughter, Spain**
Allergic to grass pollen

## Allergy is treatable

ALK-Abelló is committed to improving allergic patients' quality of life by developing products that target the allergy itself, rather than just relieving the symptoms. Allergy vaccination is now a scientifically well-documented therapy, recognized by the WHO as the only efficient treatment against allergic diseases.

The therapeutic principle underlying allergy vaccination is to administer controlled doses of the protein substances (allergens) to which the patient is allergic, thereby rebuilding the immune response tolerance. In this way, the allergic reaction can be reduced and potentially eliminated altogether.

ALK-Abelló's product portfolio comprises injection-based allergy vaccines, sublingual drops and tablet-based allergy vaccines.

## Pioneering allergy research

ALK-Abelló's history dates back to 1923 when the first allergen extracts were produced at the pharmacy of the Copenhagen University Hospital (Rigshospitalet). Ever since, researchers at ALK-Abelló have focused on mapping the mechanisms of allergic impact on the immune system in order to develop new and constantly improved allergy therapies.

More recently, the focus has been on clinical documentation of the many therapeutic benefits of allergy vaccination. A long series of articles in scientific publications document that ALK-Abelló's allergy vaccines significantly reduce allergic symptoms and thereby improve quality of life. This effect is sustained after completion of treatment.

Scientific studies have also demonstrated that the treatment prevents the development of asthma and new allergies, thereby arresting the gradual worsening of the condition normally characterizing respiratory allergy.

As an example, ALK-Abelló published new results from the acknowledged PAT (Preventive Allergy Treatment) study in March 2006. These results document that the risk of developing asthma is significantly reduced by treatment with the Alutard SQ® allergy vaccine, and that the preventive effect is sustained for a minimum of five years. The patients in the PAT study are still being monitored.


ALK-Abelló's researchers were the first to map the 3-dimensional structure of one of the world's most important allergen molecules, the house dust mite allergen, Der p1. The discovery was published as a cover article in the acknowledged scientific publication, *The Journal of Immunology*

Anne Domdey recently completed her PhD thesis "Regulation of the Human Immune Response toward Allergens". During her PhD study at the department of Experimental Immunology at ALK-Abelló, Anne discovered a method for laboratory testing of the mechanisms of the so-called T-cells in the immune system

### Focusing on the patient's needs

In the 1990s, when ALK-Abelló was the first company to launch sublingual immuno-therapy (allergy vaccination as drops under the tongue), a decisive step was taken towards making allergy vaccination more user-friendly.

Since then, ALK-Abelló's principal research and development strategy has been aimed at introducing tablet-based allergy vaccines. On the basis of a comprehensive clinical development program, these vaccines are made widely available as registered pharma-ceutical products.

The tablets can be prescribed by specialists and general practitioners and are taken by the patients at home. In this way, the tablets give far more patients access to a therapy that targets the cause of allergy.

In recent years, ALK-Abelló has conducted a long series of clinical trials of existing and pipeline products.
Clinical trials are conducted in collaboration with allergy clinics in Europe, the USA and China

# ALK-Abelló's products are reference standards

All of ALK-Abelló's allergy vaccines conform to the highest production and quality standards. Comprehensive analyses and quality control at all stages of the manufacturing process, from raw material to final allergy vaccine, ensure standardized quality from batch to batch.

Allergy vaccines are harvested from natural allergen sources such as grass pollen, being produced at for instance ALK-Abelló's raw materials production facility in Spokane, USA.

After primary purification and quality control, the raw material is subjected to secondary purification of the active pharmaceutical ingredient at automated production facilities in Denmark, France, Spain and the USA.

Here, excipients are added and the active pharmaceutical ingredient is formulated as either sublingual drops, injection-based vaccines or tablets.

Following rigorous quality control, the final stages of the production process commence, these being packaging, labelling and distribution. The entire production process is subject to ongoing quality assurance in compliance with current European and American cGMP standards.


**Alutard SQ®** is ALK-Abelló's leading product for subcutaneous allergy vaccination. After more than 20 years on the market, this is still the most frequently used injection-based allergy vaccine in Europe. Over the past seven years, ALK-Abelló's sales of Alutard SQ® have exceeded one million treatment years (the amount of ALK-Abelló medication to be used by one allergy patient for one year of treatment)

**Recent clinical publications on Alutard SQ®**

Niggemann B et al. *Allergy* 2006
Frew AJ et al. *The Journal of Allergy and Clinical Immunology* 2006
Roberts G et al. *The Journal of Allergy and Clinical Immunology* 2006
Blumberga G et al. *Allergy* 2006
Wang H et al. *Allergy* 2006
Arvidsson MB et al. *Allergy* 2004

# Subcutaneous immunotherapy (SCIT)

Subcutaneous immunotherapy, is the injection-based form of allergy vaccine. In this field, ALK-Abelló has devoted more than 20 years to establishing and maintaining its position as global market leader with the allergy vaccine Alutard SQ®.

In SCIT, the patient receives repeated injections of the very allergen to which he or she is allergic as a small depot under the skin. This therapy lasts for three years, with injections administered approximately every six weeks.

ALK-Abelló markets injection-based allergy vaccines against many types of allergy, including respiratory allergy to for instance grass and tree pollen, house dust mites and animal dander, but also allergy to bee and wasp venom.

## Persuasive clinical documentation

ALK-Abelló's position as market leader has been achieved through sustained clinical research, for instance resulting in more than 60 scientific publications on Alutard SQ®.

Injection-based allergy vaccines dominate the market in Northern Europe and the USA and account for half of ALK-Abelló's revenue.


# Sublingual immunotherapy (SLIT)

Sublingual immunotherapy is drop-based allergy vaccination, administered under the tongue and absorbed through the oral mucosa.

A comparative survey (meta-study) of a large number of clinical trials of SLIT products from different manufacturers confirms that sublingual immunotherapy generally relieves symptoms while reducing the patient's consumption of symptom-relieving medication. The results of the studies of ALK-Abelló's products were very favourable.

SLIT is produced and marketed on a "named patient" basis, meaning that the products are prescribed by the physician and then supplied directly from ALK-Abelló to the individual patient. This marketing practice is very common in Southern Europe and has in recent years been adopted in a number of Central European countries, including Germany.

The use of SLIT products is rapidly rising. Their popularity is related to their user-friendliness and sound safety profile, enabling patients to treat themselves without the regular doctor's appointments required for injection-based immunotherapy.

### SLITone®

SLITone® is the first drop-based allergy vaccine for daily administration via a single-dose container. This new form of treatment is more user-friendly as patients now just have to remember to administer their medication once a day, rather than on specific days.

The single-dose containers ensure correct dosage and can be kept at room temperature. This provides greater safety and flexibility for the patients. SLITone® is also the only form of sublingual allergy vaccination on the market.

**SLITone®** is marketed on a "named patient" basis in Austria, Germany, Italy, the Netherlands and Spain. Since it was launched in November 2003, ALK-Abelló has sold more than 65,000 treatment years of this product

**Recent clinical publications on SLITone®**

Valovirta E et al. *Allergy* 2006
Rodriguez F et al. *International Archives of Allergy and Immunology* 2006
Passalacqua G et al. *The Journal of Allergy and Clinical Immunology* 2006
Wilson DR et al. *Allergy* 2005
Novembre E et al. *The Journal of Allergy and Clinical Immunology* 2004


Results of clinical trials of **GRAZAX®** published in the 2005/06 financial year:

- GRAZAX® reduces the patient's allergy symptoms and use of medication to relieve symptoms already in the first treatment season
- GRAZAX® has a clinically significant effect from the very first day of the first treatment season
- After treatment with GRAZAX®, 82% of the patients find that they feel "better" or "much better" compared with previous pollen seasons

The clinical development program will continue in the coming years, among other things in order to document the long-term effect of GRAZAX®

**Recent clinical publications on GRAZAX®**

Malling H-J et al. *Journal of Investigational Allergy and Clinical Immunology* 2006
Durham SR et al. *The Journal of Allergy and Clinical Immunology* 2006
Rak S et al. *Quality of Life Research* 2006. In press
Kleine-Tebbe J et al. *Allergy* 2006
Calderon M et al. *Journal of Investigational Allergy and Clinical Immunology* 2006. In press
Dahl R et al. *Allergy* 2006
Dahl R et al. *The Journal of Allergy and Clinical Immunology* 2006

# Tablet-based allergy vaccination

ALK-Abelló's tablet-based allergy vaccines, like the SLIT products, are administered sublingually. Compared with drops, the tablet technology is more widespread and better known among physicians and patients. It also offers the possibility of very precise exposure to the active substance. This makes fast-dissolving tablets the ideal choice for promoting allergy vaccination as a registered pharmaceutical product to a broad target group.

GRAZAX® is ALK-Abelló's first tablet-based allergy vaccine. GRAZAX® is used against grass pollen allergy which is the most common type of allergy in Europe and the USA.

GRAZAX® has undergone the most comprehensive clinical development program to date for allergy vaccination with trials involving some 2,400 patients in a large number of countries around the world by the end of 2006.

The comprehensive data published in the 2005/06 financial year demonstrate that GRAZAX® is a convenient therapy, with a good safety profile and high efficacy – right from the first treatment season. Furthermore, in an overall survey of patients' experience of the effect of treatment with GRAZAX®, 82% stated that they felt "better" or "much better" compared with previous pollen seasons.

ALK-Abelló's pipeline also includes tablets against house dust mite, ragweed and birch pollen allergy.


# Allergy diagnostics and emergency treatment

Correct allergy treatment requires a specific diagnosis as the basis for specific treatment of the actual cause of the patient's allergy.

As a supplement to its therapeutic products, ALK-Abelló manufactures allergen extracts for *in vivo* allergy testing, such as skin-prick testing (Soluprick SQ®). ALK-Abelló also develops and supplies test reagents for Bayer Diagnostics' ADVIA Centaur® equipment, used in hospitals and at large laboratories for blood-sample-based *(in vitro)* testing of many conditions, such as allergy.

In addition, ALK-Abelló owns the marketing rights to EpiPen® in a number of countries. EpiPen® is an auto-injector containing adrenaline and is used for emergency treatment of severe allergic reactions such as those caused by insect venom allergy, food allergy or drug allergy.

**EpiPen®** contains adrenaline and is used to treat acute allergic reactions. EpiPen® is designed to enable patients to administer the injection themselves

# Income statement

| ALK-Abelló A/S | | | | ALK-Abelló Group | |
|---|---|---|---|---|---|
| 2004/05 | **2005/06** | Note | Amounts in DKKm | **2005/06** | 2004/05 |
| 447 | **410** | 3 | **Revenue** | **1,489** | 1,217 |
| 284 | **280** | 6-9 | Cost of sales | **497** | 413 |
| 163 | **130** | | **Gross profit** | **992** | 804 |
| 213 | **250** | 6-9 | Research and development expenses | **282** | 232 |
| 71 | **94** | 6-9 | Sales and marketing expenses | **482** | 358 |
| 67 | **45** | 6-9 | Administrative expenses | **176** | 167 |
| 1 | **7** | | Other operating income | **1** | 1 |
| 1 | **-** | | Other operating expenses | **-** | - |
| (188) | **(252)** | | **Operating profit/(loss) before special items** | **53** | 48 |
| 46 | **-** | 7 | Settlement of share options | **-** | 46 |
| (234) | **(252)** | | **Operating profit/(loss) (EBIT)** | **53** | 2 |
| 93 | **180** | 10 | Financial income | **48** | 15 |
| 84 | **15** | 11 | Financial expenses | **8** | 83 |
| (225) | **(87)** | | **Profit/(loss) before tax (EBT)** | **93** | (66) |
| (73) | **(57)** | 12 | Tax on profit/(loss) | **49** | 2 |
| (152) | **(30)** | | **Net profit/(loss), continuing operations** | **44** | (68) |
| 4,416 | **-** | 4 | Net profit, discontinued operations | **-** | 4,416 |
| 4,264 | **(30)** | | **Net profit/(loss)** | **44** | 4,348 |
| | | | **Attributable to:** | | |
| 4,264 | **(30)** | | Shareholders of the parent | **24** | 4,302 |
| - | **-** | | Minority interests | **20** | 46 |
| 4,264 | **(30)** | | | **44** | 4,348 |
| | | | **Earnings per share (EPS)** | | |
| | | 13 | Earnings per share (EPS) – DKK | **2.4** | 425.4 |
| | | 13 | Diluted earnings per share (DEPS) – DKK | **2.4** | 421.5 |
| | | 13 | Earnings per share (EPS), continuing operations – DKK | **2.4** | (10.6) |
| | | 13 | Diluted earnings per share (DEPS), continuing operations – DKK | **2.4** | (10.6) |
| | | | **Net profit for the year is proposed to be distributed as follows:** | | |
| 4,050 | **51** | | Dividend to shareholders | **51** | 4,050 |
| 214 | **(81)** | | Transfer to/from other reserves | **(7)** | 298 |
| 4,264 | **(30)** | | | **44** | 4,348 |

# Cash flow statement

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Note | Amounts in DKKm | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|---|
| (152) | **(30)** | | **Net profit/(loss), continuing operations** | **44** | (68) |
| | | | Adjustments: | | |
| (73) | **(57)** | 12 | Tax on profit/(loss) | **49** | 2 |
| (9) | **(165)** | | Financial income and expenses | **(40)** | 68 |
| 46 | **3** | 7 | Share-based payment | **7** | 46 |
| 50 | **44** | 9 | Depreciation, amortization and write-downs | **73** | 57 |
| 80 | **-** | | Change in provisions | **5** | 82 |
| - | **(46)** | | Share-based payment, paid | **(46)** | - |
| (65) | **42** | | Net financial items, paid | **40** | (68) |
| (20) | **-** | | Income taxes, paid | **(94)** | (78) |
| (143) | **(209)** | | **Cash flow before change in working capital** | **38** | 41 |
| (2) | **(4)** | | Change in inventories | **11** | 3 |
| 57 | **51** | | Change in receivables | **(4)** | (4) |
| 10 | **95** | | Change in short-term payables | **15** | 135 |
| (78) | **(67)** | | **Cash flow from operating activities** | **60** | 175 |
| (129) | **(285)** | 5 | Acquisitions of companies and operations | **(269)** | (129) |
| (22) | **(6)** | 15 | Additions, intangible assets | **(8)** | (22) |
| (36) | **(72)** | 16-19 | Additions, property, plant and equipment | **(97)** | (64) |
| 224 | **-** | | Sale of intangible assets and property, plant and equipment | **-** | 246 |
| 76 | **129** | | Dividend from subsidiaries | **-** | - |
| (1) | **2** | | Change in other financial assets | **4** | (1) |
| 112 | **(232)** | | **Cash flow from investing activities** | **(370)** | (30) |
| 34 | **(299)** | | **Free cash flow** | **(310)** | 205 |
| (20) | **(4,047)** | | Dividend paid to shareholders of the parent | **(4,047)** | (20) |
| - | **-** | | Dividend paid to minority interests | **-** | (29) |
| - | **-** | | Payment of minority interests | **(55)** | - |
| - | **(69)** | | Purchase of treasury shares | **(69)** | - |
| - | **11** | | Sale of treasury shares | **11** | - |
| (980) | **(3)** | | Change in other financial liabilities | **-** | (1,016) |
| (1,000) | **(4,108)** | | **Cash flow from financing activities** | **(4,160)** | (1,065) |
| 6,352 | **-** | 4 | **Cash flow from discontinued operations** | **-** | 6,277 |
| 5,386 | **(4,407)** | | **Net cash flow** | **(4,470)** | 5,417 |
| 1 | **5,387** | | Cash and cash equivalents at September 1 | **5,540** | 123 |
| - | **-** | | Unrealized gain/(loss) on foreign currency carried as cash and cash equivalents | **(1)** | - |
| 5,386 | **(4,407)** | | Net cash flow | **(4,470)** | 5,417 |
| 5,387 | **980** | | **Cash and cash equivalents at August 31** | **1,069** | 5,540 |

The cash flow statement has been adjusted to the effect that exchange rate adjustments in foreign subsidiaries are not included in the statement. As a result, the individual figures in the cash flow statement cannot be reconciled directly to the income statement and balance sheet.

# Balance sheet

| ALK-Abelló A/S | | | Assets | ALK-Abelló Group | |
|---|---|---|---|---|---|
| Aug. 31, 2005 | Aug. 31, 2006 | Note | Amounts in DKKm | Aug. 31, 2006 | Aug. 31, 2005 |
| | | | **Non-current assets** | | |
| | | | **Intangible assets** | | |
| - | - | 14 | Goodwill | 378 | 112 |
| 53 | 41 | 15 | Other intangible assets | 60 | 75 |
| 53 | 41 | | | 438 | 187 |
| | | | **Tangible assets** | | |
| 134 | 160 | 16 | Land and buildings | 273 | 253 |
| 92 | 119 | 17 | Plant and machinery | 166 | 142 |
| 1 | 3 | 18 | Other fixtures and equipment | 45 | 41 |
| 71 | 62 | 19 | Property, plant and equipment in progress | 71 | 76 |
| 298 | 344 | | | 555 | 512 |
| | | | **Other non-current assets** | | |
| 439 | 721 | 20 | Investment in subsidiaries | - | - |
| 85 | 88 | 21 | Receivables from subsidiaries | - | - |
| 6 | 4 | 22 | Securities and receivables | 5 | 9 |
| 116 | 173 | 23 | Deferred tax asset | 214 | 150 |
| 646 | 986 | | | 219 | 159 |
| 997 | 1,371 | | **Total non-current assets** | 1,212 | 858 |
| | | | **Current assets** | | |
| 135 | 139 | 24 | Inventories | 287 | 298 |
| 25 | 20 | 25 | Trade receivables | 188 | 179 |
| 72 | 37 | 21 | Receivables from subsidiaries | - | - |
| - | - | | Income tax receivables | 1 | 5 |
| 15 | 1 | 25 | Other receivables | 19 | 21 |
| 2 | 2 | 25 | Prepayments | 13 | 14 |
| 5,387 | 980 | 26 | Cash and cash equivalents | 1,069 | 5,540 |
| 5,636 | 1,179 | | **Total currents assets** | 1,577 | 6,057 |
| 6,633 | 2,550 | | **Total assets** | 2,789 | 6,915 |

| ALK-Abelló A/S | | | Equity and liabilities | ALK-Abelló Group | |
|---|---|---|---|---|---|
| Aug. 31, 2005 | **Aug. 31, 2006** | Note | Amounts in DKKm | **Aug. 31, 2006** | Aug. 31, 2005 |
| | | | **Equity** | | |
| 101 | **101** | 27 | Share capital | **101** | 101 |
| 6,007 | **1,875** | | Other reserves | **1,993** | 6,072 |
| 6,108 | **1,976** | | Equity attributable to shareholders of the parent | **2,094** | 6,173 |
| - | **-** | | Minority interests | **-** | 35 |
| 6,108 | **1,976** | | **Total equity** | **2,094** | 6,208 |
| | | | **Liabilities** | | |
| | | | **Non-current liabilities** | | |
| 44 | **49** | 28 | Mortgage debt | **49** | 44 |
| - | **-** | 28 | Bank loans and financial loans | **23** | 26 |
| 1 | **1** | 8 | Pensions and similar liabilities | **55** | 50 |
| 140 | **140** | 29 | Other provisions | **147** | 147 |
| 16 | **16** | | Other payables | **16** | 16 |
| 201 | **206** | | | **290** | 283 |
| | | | **Current liabilities** | | |
| 10 | **2** | 28 | Mortgage debt | **2** | 10 |
| - | **-** | 28 | Bank loans and financial loans | **10** | 5 |
| 87 | **64** | 30 | Trade payables | **126** | 148 |
| 86 | **178** | | Payables to subsidiaries | **-** | - |
| - | **-** | | Income taxes | **48** | 33 |
| 137 | **121** | 30 | Other payables | **187** | 203 |
| 4 | **3** | 30 | Deferred income | **32** | 25 |
| 324 | **368** | | | **405** | 424 |
| 525 | **574** | | **Total liabilities** | **695** | 707 |
| 6,633 | **2,550** | | **Total equity and liabilities** | **2,789** | 6,915 |

# Equity

**ALK-Abelló Group**

| Amounts in DKKm | Share capital | Hedges of future trans-actions | Foreign currency translation adjustment of foreign subsidiaries | Net profit/ (loss) | Total other reserves | Share-holders of the parent | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| | | Other reserves | | | | | | |
| **Equity at September 1, 2005** | 101 | - | - | 6,069 | 6,069 | 6,170 | - | 6,170 |
| Effect of changes in accounting policies | - | - | - | 3 | 3 | 3 | 35 | 38 |
| **Equity at September 1, 2005 (restated)** | **101** | **-** | **-** | **6,072** | **6,072** | **6,173** | **35** | **6,208** |
| Net profit | - | - | - | 24 | 24 | 24 | 20 | 44 |
| Foreign currency translation adjustment of foreign subsidiaries | - | - | (5) | - | (5) | (5) | - | (5) |
| *Total recognized income and expenses* | *-* | *-* | *(5)* | *24* | *19* | *19* | *20* | *39* |
| Share-based payment | - | - | - | 7 | 7 | 7 | - | 7 |
| Purchase of treasury shares | - | - | - | (69) | (69) | (69) | - | (69) |
| Sale of treasury shares | - | - | - | 11 | 11 | 11 | - | 11 |
| Dividend paid | - | - | - | (4,047) | (4,047) | (4,047) | - | (4,047) |
| Payment of minority interests | - | - | - | - | - | - | (55) | (55) |
| **Equity at August 31, 2006** | **101** | **-** | **(5)** | **1,998** | **1,993** | **2,094** | **-** | **2,094** |
| | | | | | | | | |
| **Equity at September 1, 2004** | 101 | (6) | - | 1,807 | 1,801 | 1,902 | - | 1,902 |
| Effect of changes in accounting policies | - | - | - | (3) | (3) | (3) | 43 | 40 |
| **Equity at September 1, 2004 (restated)** | **101** | **(6)** | **-** | **1,804** | **1,798** | **1,899** | **43** | **1,942** |
| Net profit | - | - | - | 4,302 | 4,302 | 4,302 | 46 | 4,348 |
| Foreign currency translation adjustment of foreign subsidiaries | - | - | - | - | - | - | 3 | 3 |
| Adjustment of derivative financial instruments for hedging | - | 3 | - | - | 3 | 3 | - | 3 |
| Divestment of business | - | 3 | - | (6) | (3) | (3) | (28) | (31) |
| *Total recognized income and expenses* | *-* | *6* | *-* | *4,296* | *4,302* | *4,302* | *21* | *4,323* |
| Share-based payment | - | - | - | (8) | (8) | (8) | - | (8) |
| Dividend paid | - | - | - | (20) | (20) | (20) | (29) | (49) |
| **Equity at August 31, 2005** | **101** | **-** | **-** | **6,072** | **6,072** | **6,173** | **35** | **6,208** |

**ALK-Abelló A/S**

| Amounts in DKKm | Share capital | Other reserves: Hedges of future trans-actions | Net profit/ (loss) | Total other reserves | Total equity |
|---|---|---|---|---|---|
| **Equity at September 1, 2005** | **101** | **-** | **6,069** | **6,069** | **6,170** |
| Effect of changes in accounting policies | - | - | (62) | (62) | (62) |
| **Equity at September 1, 2005 (restated)** | **101** | **-** | **6,007** | **6,007** | **6,108** |
| Net profit/(loss) | - | - | (30) | (30) | (30) |
| *Total recognized income and expenses* | - | - | *(30)* | *(30)* | *(30)* |
| Share-based payment | - | - | 3 | 3 | 3 |
| Purchase of treasury shares | - | - | (69) | (69) | (69) |
| Sale of treasury shares | - | - | 11 | 11 | 11 |
| Dividend paid | - | - | (4,047) | (4,047) | (4,047) |
| **Equity at August 31, 2006** | **101** | **-** | **1,875** | **1,875** | **1,976** |
| | | | | | |
| **Equity at September 1, 2004** | 101 | - | 1,801 | 1,801 | 1,902 |
| Effect of changes in accounting policies | - | - | (30) | 1,771 | (30) |
| **Equity at September 1, 2004 (restated)** | **101** | **-** | **1,771** | **1,771** | **1,872** |
| Net profit | - | - | 4,264 | 4,264 | 4,264 |
| Foreign currency translation adjustment of foreign subsidiaries | - | - | - | - | - |
| Adjustment of derivative financial instruments for hedging | - | 3 | - | 3 | 3 |
| Divestment of business | - | (3) | - | (3) | (3) |
| *Total recognized income and expenses* | - | - | *4,264* | *4,264* | *4,264* |
| Share-based payment | - | - | (8) | (8) | (20) |
| Dividend paid | - | - | (20) | (20) | (20) |
| **Equity at August 31, 2005** | **101** | **-** | **6,007** | **6,007** | **6,108** |

# List of notes to the financial statements

# Notes to the financial statements

## 1 Accounting policies

### General

The annual report of the ALK-Abelló Group and ALK-Abelló A/S has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for the annual reports of listed companies. Additional Danish disclosure requirements for the annual reports are imposed by the Statutory Order on Adoption of IFRS issued under the Danish Financial Statements Act and by the Copenhagen Stock Exchange.

The annual report also complies with the International Financial Reporting Standards issued by the IASB.

The annual report is presented in Danish kroner (DKK), which is considered the primary currency of the Group's activities and the functional currency of the parent company.

The annual report is presented on a historical cost basis, apart from certain financial instruments which are measured at fair value. Otherwise, the accounting policies are as described below.

### Accounting policy changes

This annual report is the first prepared in accordance with the International Financial Reporting Standards as adopted by the EU. The International Financial Reporting Standards has been applied to the consolidated financial statements as well as to the financial statements of the parent company. For transitional purposes, the Group applies IFRS 1, *First-time adoption of IFRS.*

According to IFRS 1, the opening balance sheet at September 1, 2004 and comparative figures for 2004/05 have been prepared in accordance with the standards and interpretations effective for the ALK-Abelló Group as at August 31, 2006. The opening balance sheet at September 1, 2004 has been prepared as if these standards and interpretations had always been applied, except where the special transitional and commencement provisions in IFRS 1 – described below – apply.

The transition to preparing consolidated and parent company financial statements in accordance with IFRS has necessitated changes to the accounting policies of the Group as well as of the parent company in a number of material areas with respect to recognition and measurement:

- Business combinations and goodwill
- Share-based payment
- Pension liabilities
- The parent company's measurement of investments in subsidiaries

On transition to preparing the financial statements in accordance with IFRS, IFRS 1 states a number of mandatory and optional exemptions. For the ALK-Abelló Group, the following mandatory exemption is relevant:

- Accounting estimates made in prior financial years are not revalued on transition to preparing the financial statements in accordance with IFRS. Only if prior estimates made were in error are these corrected in the opening balance sheet by means of set-off against equity.

Of the optional exemptions in IFRS 1, the ALK-Abelló Group has chosen to apply the following:

- Business combinations effected before September 1, 2004, including take-over balance sheets and goodwill amounts calculated in that respect, are not adjusted according to the provisions of IFRS, except that identifiable intangible assets acquired in business combinations are separated out from the calculated goodwill and recognized as separate items under intangible assets. Subsequent changes to the consideration paid for the acquired companies will be adjusted in the recognized goodwill.
- Actuarial gains and losses according to the corridor method are stated at September 1, 2004 as a net loss, which is reduced to nil by increasing the pension provision and adjusting equity by a similar amount in the opening balance sheet.

The ALK-Abelló Group has also decided to implement IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* retrospectively from September 1, 2004, as the necessary information had been obtained at the time when it was announced that the ingredients business was put up for sale.

In addition to changes concerning recognition and measurement, the presentation and classification of accounting items have been changed on transition to preparing the financial statements in accordance with IFRS reporting as follows:

- Minority interests are presented as an item under Group equity.
- Provisions are presented under current and non-current liabilities, respectively.
- The impact on profit of discontinued operations is presented as a separate item in the income statement.

The impact of the changes in the accounting policy are further detailed in note 38 to the financial statements, including explanatory reconciliations of the previous accounting policies to IFRS.

### Standards and interpretations not yet effective

At the date of the publication of this annual report, the following new or amended standards and interpretations relevant to the ALK-Abelló Group are not yet effective, and are therefore not included in this annual report:

- IAS 19, *Employee benefits (revised).* Effective date January 1, 2006. The Group expects to continue recognizing actuarial gains/losses using the corridor

# Notes to the financial statements

approach in 2006/07. The new standard will consequently only affect the disclosures in the notes of defined benefit plans and similar obligations.
- IFRS 7, *Financial instruments: Disclosures.* Effective date January 1, 2007. Implementation of the standard will not affect the recognition and measurement of financial instruments.

### The consolidated financial statements

The consolidated financial statements comprise the financial statements of ALK-Abelló A/S (the parent company) and companies (subsidiaries) controlled by the parent company. The parent company is considered to control a subsidiary when it directly or indirectly holds more than 50% of the voting rights or is otherwise able to exercise or actually exercises a controlling influence.

Companies in which the Group directly or indirectly holds between 20% and 50% of the voting rights and exercises a significant but not a controlling influence are considered associates.

### Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of ALK-Abelló A/S and its subsidiaries. The consolidated financial statements are prepared as a consolidation of items of a uniform nature. The financial statements used for consolidation are prepared in accordance with the Group's accounting policies.

On consolidation, intra-group income and expenses, intra-group balances and dividends, and gains and losses arising on intra-group transactions are eliminated.

The items of the financial statements of subsidiaries are fully consolidated in the Group financial statements. The proportionate share of the results of minority interests is recognized in the consolidated income statement and as a separate item under Group equity.

### Business combinations

Newly acquired or newly established companies are recognized in the consolidated financial statements from the date of acquisition or establishment. The date of acquisition is the date when control of the company actually passes to the Group. Companies sold or discontinued are recognized in the consolidated income statement up to the date of disposal. The date of disposal is the date when control of the company actually passes to a third party.

Acquisitions are accounted for using the purchase method, according to which the identifiable assets, liabilities and contingent liabilities of companies acquired are measured at fair value at the date of acquisition. Non-current assets held for sale are, however, measured at fair value less expected costs to sell.

Restructuring costs are only recognized in the take-over balance sheet if they represent a liability to the acquired company. The tax effect of revaluations is taken into account.

The cost of a company is the fair value of the consideration paid plus costs directly attributable to the business combination. If the final determination of the consideration is conditional on one or more future events, these adjustments are only recognized in cost if the event in question is likely to occur and its effect on cost can be reliably measured.

If the fair value of the acquired assets or liabilities subsequently proves different from the values calculated at the acquisition date, cost is adjusted for up to 12 months after the date of acquisition.

Any excess of the cost (goodwill) of an acquired company over the fair value of the acquired assets, liabilities and contingent liabilities is recognized as an asset under intangible assets and tested for impairment at least once a year. If the carrying amount of an asset exceeds its recoverable amount, the asset is written down to the lower recoverable amount.

### Gains or losses on disposal of subsidiaries

Gains or losses on disposal of subsidiaries are stated as the difference between the disposal amount and the carrying amount of net assets including goodwill at the date of disposal, accumulated foreign exchange adjustments taken directly to equity and anticipated disposal costs. The disposal amount is measured as the fair value of the consideration received.

### Foreign currency translation

On initial recognition, transactions denominated in currencies other than the Group's functional currency are translated at average exchange rates, which are an approximation of the exchange rates at the transaction date. Receivables and debt and other monetary items not settled at the balance sheet date are translated at the closing rate.

Exchange differences between the exchange rate at the date of the transaction and the exchange rate at the date of payment or the balance sheet date, respectively, are recognized in the income statement under financial items. Property, plant and equipment and intangible assets, inventories and other non-monetary assets acquired in foreign currency and measured based on historical cost are translated at the exchange rates at the transaction date. Non-monetary items revalued at fair value are translated at the exchange rates at the revaluation date.

On recognition in the consolidated financial statements of subsidiaries whose financial statements are presented in a functional currency other than DKK, the income statements are translated at average exchange rates for the respective months, unless these deviate materially from the actual exchange rates at the transaction dates. In that case, the actual exchange rates are used. Balance sheet items are translated at the exchange rates at the balance sheet date. Goodwill is considered to belong to the acquired company in question and is translated at the exchange rate at the balance sheet date.

Exchange differences arising on the translation of foreign subsidiaries' opening balance sheet items to the exchange rates at the balance sheet date and on the translation of the income statements from average exchange rates to exchange rates at the balance sheet date are taken directly to equity. Similarly, exchange differences arising as a result of changes made directly in the equity of the foreign subsidiary are also taken directly to equity.

Foreign exchange adjustment of receivables or debt to subsidiaries which are considered part of the parent company's overall investment in the subsidiary in question are also taken directly to equity in the consolidated financial statements.

### Derivative financial instruments

Derivative financial instruments are measured at fair value on initial recognition. Subsequently, they are measured at fair value at the balance sheet date.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as fair value hedges of a recognized asset or a recognized liability are recognized in the income statement together with any changes in the value of the hedged asset or hedged liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as effective hedges of future transactions are recognized directly in equity. When the hedged transactions are realized, cumulative changes are recognized as part of the cost of the transactions in question.

Changes in the fair value of derivative financial instruments used to hedge net investments in foreign subsidiaries are recognized directly in equity to the extent that the hedge is effective. On disposal of the foreign subsidiary in question, the cumulative changes are transferred to the income statement.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognized as financial items in the income statement as they occur.

### Share-based incentive plans

Share-based incentive plans, which comprise share option plans and employee share plans, are measured at the grant date at fair value and recognized in the income statement under the respective functions over the vesting period. The balancing item is recognized in equity.

The fair value of share options is determined using the Black & Scholes-model with the parameters stated in note 7.

### Tax

Tax on the profit for the year comprises the year's current tax and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognized in the income statement, except to the extent that it relates to items recognized directly in equity in which case it is recognized in equity. Exchange adjustments of deferred tax are recognized as part of the adjustment of deferred tax for the year.

Current tax payable and receivable is recognized in the balance sheet as the expected tax on the taxable income for the year, adjusted for tax paid on account.

The current tax charge for the year is calculated based on the tax rates and rules enacted at the balance sheet date.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognized on temporary differences relating to the initial recognition of goodwill or the initial recognition of a transaction, apart from business combinations, and where the temporary difference existing at the date of initial recognition affects neither profit/loss for the year nor taxable income.

Deferred tax is not provided on temporary differences relating to investments in subsidiaries, as the parent company is able to control whether tax liability will crystallize, and it is likely that the liabilities will not crystallize as current tax in the foreseeable future.

Deferred tax is calculated based on the planned use of each asset and settlement of each liability, respectively.

Deferred tax is measured using the tax rates and tax rules that, based on legislation enacted or in reality enacted at the balance sheet date, are expected to apply in the respective countries when the deferred tax is expected to crystallize as current tax. Changes in deferred tax as a result of changed tax rates or rules are recognized in the income statement or in equity, depending on where the deferred tax was originally recognized.

Deferred tax assets, including the tax value of tax loss carry-forwards, are recognized in the balance sheet at the value at which the asset is expected to be realized, either through a set-off against deferred tax liabilities or as net assets to be offset against future positive taxable income. At each balance sheet date, it is reassessed whether it is

# Notes to the financial statements

likely that there will be sufficient future taxable income for the deferred tax asset to be utilized.

As from 2005/06, the parent company is taxed jointly with the Company's principal shareholder, LFI a/s and its Danish subsidiaries. The tax charge for the year is allocated among the jointly taxed companies in proportion to the taxable incomes of individual companies, taking into account taxes paid.

### Discontinued operations and non-current assets held for sale

Discontinued operations are major business areas or geographical areas which have been sold or which are held for sale according to an overall plan.

The results of discontinued operations are presented as a separate item in the income statement, consisting of the activity's operating profit/loss after tax and any gains or losses on fair value adjustment or sale of the related assets.

## Income statement

### Revenue

Revenue from the sale of goods for resale and manufactured goods is recognized in the income statement if delivery and the transfer of risk to the purchaser have taken place.

Revenue is measured as the fair value of the consideration received or receivable.

Revenue is measured exclusive of VAT, taxes etc. charged on behalf of third parties and less any commissions and discounts in connection with sales.

### Cost of sales

The item comprises cost of sales and production costs incurred in generating the revenue for the year. Costs for raw materials, consumables, goods for resale, production staff and a proportion of production overheads, including maintenance and depreciation, amortization and impairment of property, plant and equipment and intangible assets used in production as well as operation, administration and management of factories are recognized in cost of sales and production costs. In addition, the costs and write-down to net realizable value of obsolete and slow-moving goods are recognized.

### Research and development expenses

The item comprises research and development costs, including costs incurred for wages and salaries, depreciation and other overheads as well as costs relating to research partnerships.

Research costs are recognized in the income statement when incurred.

Due to the long development periods and significant uncertainties in relation to the development of new products, including risk regarding clinical trials and regulatory approvals, it is the assessment that the ALK-Abelló Group's development costs generally do not meet the capitalization criteria in IAS 38, *Intangible assets.* All development costs are therefore recognized in the income statement when incurred.

### Sales and marketing expenses

The item comprises selling and marketing costs, including salaries and expenses relating to sales staff, advertising and exhibitions, depreciation, amortization and impairment losses on the property, plant and equipment and intangible assets used in the sales and marketing process as well as other indirect costs.

### Administrative expenses

The item comprises expenses incurred for management and administration, including expenses for administrative staff and management, office expenses and depreciation, amortization and impairment losses on the property, plant and equipment and intangible assets used in administration.

### Other operating income and expenses

Other operating income and expenses comprise income and expenses of a secondary nature relative to the principal activities of the ALK-Abelló Group.

### Financial items

Financial items comprises interest receivable and interest payable, the interest component of payments on finance leases, realized and unrealized foreign exchange gains and losses on securities, liabilities and foreign currency transactions, mortgage amortization premium/allowance etc. and supplements/allowances under the on-account tax scheme.

Interest income and expenses are accrued based on the principal and the effective rate of interest. The effective rate of interest is the discount rate to be used on discounting expected future payments in relation to the financial asset or the financial liability so that their present value corresponds to the carrying amount of the asset or liability, respectively.

Dividends from investments in subsidiaries are recognized in the parent company financial statements when the right to the dividend finally vests, typically at the date of the company's approval in general meeting of the dividend of the company in question.

## Balance sheet

### Goodwill

On initial recognition, goodwill is measured and recognized as the excess of the cost of the acquired company over the fair value of the acquired assets, liabilities and contingent liabilities, as described under the consolidated financial statements. In addition, goodwill on acquisition of investments in subsidiaries from minority interests is recognized.

On recognition of goodwill, the goodwill amount is allocated to those of the ALK-Abelló Group's activities that generate separate cash flows (cash-generating units). The determination of cash-generating units is based on the ALK-Abelló Group's management structure and internal financial management and reporting.

Goodwill is not amortized, but is tested for impairment at least once a year, as described below.

### Intangible assets

Acquired intellectual property rights in the form of patents, brands, licenses, software and similar rights are measured at cost less accumulated amortization and impairment.

The cost of software includes costs of planning work, including direct salaries. Such acquired intellectual property rights are amortized on a straight-line basis over the contract period, not exceeding 10 years. If the actual useful life is shorter than either the remaining life or the contract period, the asset is amortized over this shorter useful life.

Acquired intellectual property rights are written down to their recoverable amount where this is lower than the carrying amount, as described below.

Intangible assets with indeterminable useful lives are not amortized, but are tested for impairment at least once a year. To the extent that the carrying amount of the assets exceeds the recoverable amount, the assets are written down to this lower amount, as described below.

### Property, plant and equipment

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

Cost comprises the purchase price and any costs directly attributable to the acquisition and any preparation costs incurred until the date when the asset is available for use.

The cost of assets held under finance leases is determined as the lower of the fair value of the assets and the present value of future minimum lease payments.

Interest expenses on loans to finance the manufacture of property, plant and equipment is included in cost if they relate to the production period. Other borrowing costs are taken to the income statement.

The depreciation base is cost less the estimated residual value at the end of the useful life. The residual value, estimated at the acquisition date and reassessed annually, is determined as the amount the company expects to obtain for the asset less costs of disposal.

The cost of an asset is divided into smaller components that are depreciated separately if such components have different useful lives.

Assets are depreciated on a straight-line basis over their estimated useful lives as follows:

| | |
|---|---|
| Buildings | 25-50 years |
| Plant and machinery | 5-10 years |
| Other fixtures and equipment | 5-10 years |

Depreciation methods, useful lives and residual values are re-assessed once a year.

### Impairment of property, plant and equipment and intangible assets

The carrying amounts of property, plant and equipment and intangible assets with determinable useful lives are reviewed at the balance sheet date to determine whether there are any indications of impairment. If such indications are found, the recoverable amount of the asset is calculated to determine any need for an impairment write-down and, if so, the amount of the write-down. For intangible assets with indeterminable useful lives and goodwill, the recoverable amount is calculated annually, regardless of whether any indications of impairment have been found.

If the asset does not generate any cash flows independently of other assets, the recoverable amount is calculated for the smallest cash-generating unit that includes the asset.

The recoverable amount is calculated as the higher of the fair value less costs to sell and the value in use of the asset or the cash-generating unit, respectively. In determining the value in use, the estimated future cash flows are discounted to their present value, using a discount rate reflecting current market assessments of the time value of money as well as risks that are specific to the asset or the cash-generating unit and which have not been taken into account in the estimated future cash flows.

If the recoverable amount of the asset or the cash-generating unit is lower than the carry-

# Notes to the financial statements

ing amount, the carrying amount is written down to the recoverable amount. For cash-generating units, the write-down is allocated in such a way that goodwill amounts are written down first, and any remaining need for write-down is allocated to other assets in the unit, although no individual assets are written down to a value lower than their fair value less costs to sell.

Impairment write-downs are recognized in the income statement. If write-downs are subsequently reversed as a result of changes in the assumptions on which the calculation of the recoverable amount is based, the carrying amount of the asset or the cash-generating unit is increased to the adjusted recoverable amount, not, however, exceeding the carrying amount that the asset or cash-generating unit would have had, had the write-down not been made. Impairment of goodwill is not reversed.

### Investments in subsidiaries in the financial statements of the parent company

Investments in subsidiaries are measured at cost.

Where the recoverable amount of the investments is lower than cost, the investments are written down to this lower value. In addition, cost is written down to the extent that dividend distributed exceeds the accumulated earnings in the company since the acquisition date.

### Other long-term financial assets

Other securities and receivables that are accounted for as long-term financial assets are measured at fair value.

### Inventories

Inventories are measured at the lower of cost under the FIFO method and net realizable value.

Cost comprises raw materials, goods for resale, consumables and direct payroll costs as well as fixed and variable production overheads. Variable production overheads comprise indirect materials and payroll costs and are allocated based on preliminary calculations of the goods actually produced. Fixed production overheads comprise maintenance of and depreciation on the machines, factory buildings and equipment used in the manufacturing process as well as the cost of factory management and administration. Fixed production overheads are allocated based on the normal capacity of the production plant. The net realizable value of inventories is calculated as the expected selling price less completion costs and costs incurred in making the sale.

### Receivables

On initial recognition, receivables are measured at fair value, and subsequently they are measured at amortized cost. Receivables are written down for anticipated losses.

### Prepayments

Prepayments are recognized as an asset and comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

### Dividend

Until adopted at the annual general meeting, the expected dividends to be distributed for the year are recognized under equity. Subsequently, dividend is recognized as a liability.

### Treasury shares

Acquisition and sales sums arising on the purchase and sale of treasury shares and dividends on treasury shares are recognized directly in retained earnings under equity.

### Pension liabilities etc.

The ALK-Abelló Group has entered into pension agreements and similar agreements with some of the Group's employees.

In respect of defined contribution plans, the Group currently pays in fixed contributions to independent pension funds etc. The contributions are recognized in the income statement during the period in which the employee renders the related service. Payments due are recognized as a liability in the balance sheet.

In respect of defined benefit plans, the Group is required to pay an agreed benefit in connection with the retirement of the employees covered by the plan, e.g. in the form of a fixed amount or a percentage of the salary at retirement.

For defined benefit plans, an annual actuarial assessment is made of the net present value of future benefits to which the employees have earned the right through their past service for the Group and which will have to be paid under the plan. The Projected Unit Credit Method is applied to determine value in use.

The net present value is calculated based on assumptions of the future developments of salary, interest, inflation, mortality and disability rates.

The net present value of pension liabilities is recognized in the balance sheet, after deduction of the fair value of any assets attached to the plan, as either plan assets or pension liabilities, depending on whether the net amount is an asset or a liability, as described below, however.

If the assumptions made with respect to discount factor, inflation, mortality and disability are changed or if there is a discrepancy between the expected and realized return on plan assets, actuarial gains or losses occur. These gains and losses are only recognized if the accumulated gains and losses at the beginning of a financial year exceed the higher numerical value of 10% of the pension liabilities or 10% of the fair value of plan assets (the corridor method). If this is the case, the excess amount is recognized in the income statement, distributed on the expected remaining average working life of the employees covered by the plan.

If the pension plan represents a net asset, the asset is only recognized to the extent that it does not exceed the sum of unrecognized actuarial losses, unrecognized past service costs and the present value of any refunds from the plan or reductions in future contributions to the plan.

If the benefits relating to the employees' service in prior periods change, this results in a change to the actuarial net present value which is considered a past service cost. If the employees covered by the plan have already earned the right to the changed benefits, the change is taken to the income statement immediately. Otherwise, the change is recognized in the income statement over the period during which the employees earn the right to the benefits.

### Provisions

Provisions are recognized when, as a consequence of a past event during the financial year or previous years, the Group has a legal or constructive obligation, and it is likely that settlement of the obligation will require an outflow of the company's financial resources.

Provisions are measured as the best estimate of the costs required to settle the liabilities at the balance sheet date. Provisions with an expected term of more than a year after the balance sheet date are measured at present value.

In connection with a planned restructuring of the Group, provision is made only for liabilities relating to restructurings that on the balance sheet date have been set out in a specific plan and where those affected have been informed of the overall plan.

### Mortgage debt

Mortgage debt is recognized on the raising of a loan at the fair value of the proceeds received, net of transaction costs incurred. Subsequently, mortgage debt is measured at amortized cost.

### Lease liabilities

Lease liabilities regarding assets held under finance leases are recognized in the balance sheet as liabilities and measured at the inception of the lease at the lower of the fair value of the leased asset and the present value of future lease payments.

On subsequent recognition, lease liabilities are measured at amortized cost. The difference between the present value and the nominal value of lease payments is recognized in the income statement over the term of the lease as a finance charge.

Lease payments regarding operating leases are recognized in the income statement on a straight-line basis over the term of the lease.

### Other financial liabilities

Other financial liabilities, including bank and financial loans and trade payables, are on initial recognition measured at fair value. The liabilities are subsequently measured at amortized cost.

### Deferred income

Deferred income comprises income received relating to subsequent financial years. Deferred income is measured at cost.

## Other accounting information

### Cash flow statement

The cash flow statement of the Group and the parent company is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

The cash effect of acquisitions and divestments is shown separately under cash flows from investing activities. In the cash flow statement, cash flows concerning acquired companies are recognized from the date of acquisition, while cash flows concerning divested companies are recognized until the date of divestment.

Cash flows from operating activities are stated as operating profit, adjusted for non-cash operating items and changes in working capital, less the income tax paid during the year attributable to operating activities.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of companies and financial assets as well as purchase, development, improvement and sale of intangible assets and property, plant and equipment. Also recognized are cash flows from assets held under finance lease in the form of lease payments made.

Cash flows from financing activities comprise changes to the parent company's share capital and related costs as well as the raising and repayment of loans, installments on interest-bearing debt, acquisition of treasury shares and payment of dividends.

Cash flows in currencies other than the functional currency are recognized in the cash flow statement using average exchange rates for the individual months if these are a

# Notes to the financial statements

reasonable approximation of the actual exchange rates at the transaction dates. If this is not the case, the actual exchange rates for the specific days in questions are used.

Cash and cash equivalents comprise cash and short-term securities subject to an insignificant risk of changes in value less any overdraft facilities that are an integral part of the Group's cash management.

### Segment reporting

The ALK-Abelló Group's activities fall exclusively within the business area "Allergy treatment". There is therefore only one primary segment.

Revenue, property, plant and equipment and intangible assets as well as additions to property, plant and equipment and intangible assets are disclosed for the ALK-Abelló Group's secondary, geographical segments. The segment information follows the Group's risks, the Group's accounting policies and in-house financial management.

Segment revenue and assets comprise those items that are directly attributable to individual segments or that can be allocated to individual segments on a reasonable basis.

### Definitions and ratios

The key ratios have been calculated in accordance with "Recommendations and Financial Ratios 2005" issued by the Danish Association of Financial Analysts.

Key ratios and definitions are shown on the covers of the annual report.

## 2 Significant accounting estimates and judgments

In the preparation of the financial statements according to generally accepted accounting principles, Management is required to make certain estimates as many financial statement items cannot be reliably measured, but must be estimated. Such estimates comprise judgments made on the basis of the most recent information available at the reporting date. It may be necessary to change previous estimates as a result of changes to the assumptions on which the estimates were based or due to supplementary information, additional experience or subsequent events.

Similarly, the value of assets and liabilities often depends on future events that are somewhat uncertain. In that connection, it is necessary to set out e.g. a course of events that reflects Management's assessment of the most probable course of events.

In the financial statements for 2005/06, Management considers the following estimates and related judgments material to the assets and liabilities recognized in the financial statements.

### Recoverable amount of goodwill

The assessment of whether goodwill is impaired requires a determination of the value in use of the cash-generating units to which the goodwill amounts have been allocated. The determination of the value in use requires estimates of the expected future cash flows of each cash-generating unit and a reasonable discount rate. At August 31, 2006, the carrying amount of goodwill is DKK 378 million.

### Indirect production overheads

Indirect production overheads (IPO) are measured on the basis of the standard cost method. The basis of standard costs is reassessed regularly to ensure that standard costs are adjusted for changes in the utilization of production capacity, production times and other relevant factors. Changes in the method of determining standard costs may significantly affect gross margin and the valuation of inventories. At August 31, 2006, the value of IPO is DKK 53 million.

### Tax

Management is required to make an estimate in the recognition of deferred tax assets and liabilities. The ALK-Abelló Group recognizes deferred tax assets if it is probable that they can be set off against future taxable income. At August 31, 2006, the value of deferred tax assets and liabilities is DKK 214 million.

### Provisions and contingent assets and liabilities

In connection with the sale of the ingredients business during the 2004/05 financial year, ALK-Abelló A/S assumed the usual representations and guaranties related to the sale. The representations and guaranties expire successively over the coming years. DKK 140 million has been provided for specific risks, including environmental risks. The provision has been reassessed during the 2005/06 financial year and, based on Management's assessment of the specific risks, the provision remains unchanged.

## 3 Segment information for the ALK-Abelló Group

**Primary segment**
The ALK-Abelló Group's activities are exclusively in the business area of "Allergy treatment"

**Secondary segment**
The ALK-Abelló Group's revenue is divided into the following secondary geographical segments:

| | Revenue | |
|---|---|---|
| Amounts in DKKm | 2005/06 | 2004/05 |
| Northern Europe | 298 | 261 |
| Central Europe | 579 | 531 |
| Southern Europe | 387 | 210 |
| Other markets | 225 | 215 |
| **Total** | **1,489** | 1,217 |

The geographical segment information on revenue is based on location of customers.

The ALK-Abelló Group's property, plant and equipment and intangible assets together with the additions to property, plant and equipment and intangible assets for the year are divided into the following geographical segments:

| | Carrying amounts of property, plant and equipment and intangible assets | | Additions of property, plant and equipment and intangible assets | |
|---|---|---|---|---|
| Amounts in DKKm | 2005/06 | 2004/05 | 2005/06 | 2004/05 |
| Northern Europe | 394 | 363 | 76 | 47 |
| Central Europe | 285 | 18 | 269 | 1 |
| Southern Europe | 233 | 246 | 11 | 94 |
| Other markets | 81 | 72 | 16 | 8 |
| **Total** | **993** | 699 | **372** | 150 |

The geographical segment information on property, plant and equipment and intangible assets is based on location of assets.

# Notes to the financial statements

## 4 Discontinued operations

In April 2005 an agreement concerning the divestment of the ingredients business Chr. Hansen A/S was signed. The divestment was made with effect as from July 29, 2005.

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S **2005/06** | Amounts in DKKm | ALK-Abelló Group **2005/06** | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| | | The discontinued operation has affected the income statement as follows: | | |
| | | The net profit for the period until transfer of control as from July 29, 2005 is as follows: | | |
| - | - | **Revenue** | - | 3,164 |
| - | - | Cost of sales | - | 1,932 |
| - | - | **Gross profit** | - | 1,232 |
| - | - | Research and development expenses | - | 213 |
| - | - | Sales and marketing expenses | - | 407 |
| - | - | Administrative expenses | - | 259 |
| - | - | Other operating income | - | 16 |
| - | - | Other operating expenses | - | 9 |
| - | - | **Operating profit before special items** | - | 360 |
| - | - | Adjustment of prior-year provision, litigation | - | 20 |
| - | - | Settlement of share options | - | 3 |
| - | - | **Operating profit** | - | 377 |
| - | - | Financial income | - | 24 |
| - | - | Fnancial expenses | - | 74 |
| - | - | **Profit before tax** | - | 327 |
| - | - | Tax on profit for the year | - | 81 |
| - | - | **Net profit** | - | 246 |
| 4,416 | - | Profit on divestment | - | 4,170 |
| 4,416 | - | **Effect on the profit for the year** | - | 4,416 |
| | | The discontinued operation has affected the cash flow statement as follows: | | |
| - | - | Cash flow from operating activities | - | 232 |
| - | - | Cash flow from investing activities | - | (444) |
| - | - | Cash flow from financing activities | - | 137 |
| 6,352 | - | Divestment of business | - | 6,352 |
| 6,352 | - | **Net cash flow** | - | 6,277 |

## 5 Acquisitions of companies and operations

During the 2005/06 financial year, ALK-Abelló A/S acquired the activities of its former Swiss distributor effective as from January 1, 2006. Also as from January 1, 2006, ALK-Abello A/S acquired the former minority interests, equaling the remaining 50% of the shares, in the German company ALK-Scherax Arzneimittel GmbH.
During the 2004/05 financial year, ALK-Abelló A/S among other activities acquired the French company Allerbio S.A. effective as from June 29, 2005. All transactions have been accounted for using the purchase method.

**Acquired net assets and cash purchase price:**

| | ALK-Abelló Group | |
|---|---|---|
| Amounts in DKKm | **2005/06** | 2004/05 |
| Property, plant and equipment | **-** | 76 |
| Other non-current assets | **-** | 7 |
| Inventories | **1** | 17 |
| Receivables | **2** | 21 |
| Cash and cash equivalents | **2** | 49 |
| Non-current liabilities | **-** | (30) |
| Current liabilities | **(1)** | (43) |
| **Net assets acquired** | **4** | 97 |
| Goodwill | **3** | 79 |
| Acquisitions costs | **-** | 2 |
| **Purchase price** | **7** | 178 |
| Acquired cash and cash equivalents | **(2)** | (49) |
| **Cash purchase price** | **5** | 129 |
| Goodwill on acquisition of minority interests | **264** | - |
| | **269** | 129 |

The fair value of the acquired net assets at the acquisition date equaled their carrying amounts calculated according to IFRS before the acquisition. Consequently, no fair value adjustment was made.

After recognition of identifiable assets, liabilities and contingent liabilities at fair value, goodwill related to the acquisitions amounts to DKK 267 million (DKK 79 million). The balance represents the value of the assets that could not be measured reliably at fair value, the value of acquired employees and the value of access to sales and distribution channels.

In ALK-Abelló A/S, acquisitions of companies and activities in 2005/06 (totaling DKK 285 million) include the carrying amount at the acquisition date of minority interests taken over.

**The share of revenue and profit/(loss) for the year from continuing operations from the acquisition date:**

| | Acquisitions of companies and operations | |
|---|---|---|
| Amounts in DKKm | **2005/06** | 2004/05 |
| Revenue | **14** | 18 |
| EBIT | **1** | (1) |
| Profit/(loss) for the year | **-** | - |

Information on acquired companies and activities stated as if they had been owned for the entire year of acquisition is not possible due to differences in the financial years of the acquired companies and activities and the ALK-Abelló Group.

# Notes to the financial statements

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | **2005/06** | **6 Staff costs** | **2005/06** | 2004/05 |
| 3 | **3** | Remuneration to the Board of Directors | **3** | 3 |
| 231 | **227** | Wages and salaries | **482** | 408 |
| 14 | **16** | Pensions cf. note 8 | **38** | 31 |
| 3 | **6** | Other social security costs etc. | **52** | 35 |
| 46 | **3** | Share-based payment cf. note 7 | **7** | 46 |
| 297 | **255** | **Total, continuing operations** | **582** | 523 |
| - | **-** | Discontinued operations | **-** | 898 |
| 297 | **255** | **Total** | **582** | 1,421 |
| | | Staff costs are allocated as follows: | | |
| 94 | **95** | Cost of sales | **181** | 155 |
| 80 | **86** | Research and development expenses | **108** | 91 |
| 25 | **32** | Sales and marketing expenses | **208** | 160 |
| 52 | **42** | Administrative expenses | **85** | 71 |
| 46 | **-** | Settlement of share options | **-** | 46 |
| 297 | **255** | **Total, continuing operations** | **582** | 523 |
| - | **-** | Discontinued operations | **-** | 898 |
| 297 | **255** | **Total** | **582** | 1,421 |
| | | **Employees** | | |
| 459 | **468** | Average number, continuing operations | **1,227** | 1,027 |
| 461 | **481** | Number at year-end, continuing operations | **1,266** | 1,188 |
| - | **-** | Average number, discontinued operations | **-** | 2,661 |
| | | **Remuneration to Board of Management, continuing operations:** | | |
| 10 | **11** | Board of Management remuneration, exclusive share-based payment | **11** | 10 |
| 23 | **-** | Settlement of share options | **-** | 23 |
| 33 | **11** | **Total** | **11** | 33 |

See note 7 for information on share option plans for the Board of Management and key personnel.

## 7 Share-based payment

### Share option plans

**2005/06**

In 2006 the ALK-Abelló Group has granted share options to the Board of Management (5 persons) and a number of key personnel. As of August 31, 2006 the share option plan consists of a total of 68,000 share options equal to less than 1% of the share capital. Each share option gives the owner the right to acquire an existing B share of nominally DKK 10 in the company.

The exercise price of the options is determined as the average of the officially quoted price of the Company's shares during the period March 1 - March 14, 2006. The exercise price will be increased by 6% p.a. The options will lapse on termination of employment. There are no other vesting conditions.

The options can be exercised during the period from January 1, 2009 to January 1, 2012 during the four-week trading window following the release of annual and interim reports.

Specification of outstanding share options:

| | Board of Management Units | Other key personnel Units | Total Units | Average exercise price DKK |
|---|---|---|---|---|
| Outstanding share options September 1, 2005 | - | - | - | - |
| Additions | 30,000 | 38,000 | 68,000 | 937 |
| **Outstanding share options August 31, 2006** | **30,000** | **38,000** | **68,000** | **937** |

The calculated market price of the granted share options in 2005/06 was DKK 188 per option at the grant date.

In 2005/06, the fair value of share options recognized in the income statement of the ALK-Abelló Group amounts to DKK 2 million, of which DKK 1 million relates to the Board of Management.

The calculated market price at allotment is based on the Black & Scholes-model for valuation of options.

The assumptions for the calculation of the market price of outstanding share options at the grant date are as follows:

| **2005/06** | |
|---|---|
| Average share price (DKK) | 742 |
| Average exercise price (DKK) | 937 |
| Expected volatility rate | 35% p.a. |
| Expected option life | 4,4 years |
| Expected dividend per share | - |
| Risk-free interest rate | 3,33% p.a. |

The expected volatility rate is based on the historical volatility (calculated as the weighted average remaining life of granted share options) adjusted for expected changes as a consequence of publicly available information.

The average remaining life of outstanding options at August 31, 2006 is 2.8 years (2004/05: 0 years) and the exercise price is in the range of DKK 884-1,053 per option (2004/05: DKK 0 per option)

# Notes to the financial statements

## 7 Share-based payment (continued)

**2004/05**

In 2002/03, a share option plan was set up for the former Board of Management, according to which a total of 195,000 options were granted to the members of the former Board of Management in three tranches over three years. The exercise prices for the three tranches were DKK 251, DKK 317 and DKK 448, respectively.

In connection with the sale of the ingredients business in 2004/05, the Board of Directors decided to settle this share option plan. The settlement amount was DKK 121 million, which is recognized as "Net profit, discontinued operations".

In 2002/03, a separate share option plan was also set up for the Board of Management and key personnel in the allergy business, depending on the separate listing of the entity. As a result of the sale of the ingredients business in 2004/05 and the subsequent merger of ALK-Abelló A/S and Chr. Hansen Holding A/S, the Board of Directors decided to settle the share option plan in cash at an amount of DKK 46 million, corresponding to the estimated value of the plan at the settlement date. The amount is recognized as a separate item in the income statement.

**Employee shares**

In 2005/06, the ALK-Abelló Group decided to offer employee shares (free shares) to the employees. In certain countries, the plan is structured as a share-like plan however, with cash payments calculated based on the development of the company's share price.

The program is organized so that employees with at least one year's seniority at August 31, 2006 were offered participation in the plan. Employees with less than one year's seniority will be offered the same terms at August 31, 2007, provided that they are still employed with the ALK-Abelló Group.

For employees with at least one year's seniority, the shares will be transferred before the end of 2006 from the Company's holding of treasury shares. The shares will not exceed 0.1% of the share capital. The cost of this part of the employee share plan has been recognized on the basis of the number of employees expected to accept the offer and the fair value at the grant date.

The cost of the share-like plan in certain countries will be recognized over the vesting period.

The assumptions used in the calculation of the employee share plan at the grant date are as follows:

| 2005/06 | |
|---|---|
| Share price (DKK) | 740 |

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | 2005/06 | **7 Share-based payment (continued)** | 2005/06 | 2004/05 |
| | | **Total share-based payment** | | |
| - | 1 | Costs regarding share options | 2 | - |
| - | 2 | Costs regarding employee shares | 5 | - |
| 46 | - | Settlement of share options | - | 46 |
| 46 | 3 | **Total, continuing operations** | 7 | 46 |
| 121 | - | Share option plan, discontinued operations | - | 121 |
| 167 | 3 | **Total** | 7 | 167 |
| | | Costs for the year regarding share-based payment are recognized as follows: | | |
| - | 1 | Cost of sales | 2 | - |
| - | 1 | Research and development expenses | 2 | - |
| - | - | Sales and marketing expenses | 2 | - |
| - | 1 | Administrative expenses | 1 | - |
| 46 | - | Settlement of share options | - | 46 |
| 121 | - | Net profit, discontinued operations | - | 121 |
| 167 | 3 | **Total** | 7 | 167 |

# Notes to the financial statements

## 8 Pensions and similar liabilities

The ALK-Abelló Group has entered into defined contribution plans as well as defined benefit plans.
In defined contribution plans the employer is obliged to pay a certain contribution to a pension fund or the like but bears no risks regarding the future development in interest, inflation, mortality, disability rates etc. regarding the amount to be paid to the employee.
In defined benefit plans the employer is obliged to pay a certain payment when a pre-agreed event occurs. The employer bears the risks regarding the future development in interest, inflation, mortality, disability rates etc. regarding the amount to be paid to the employee.

| ALK-Abelló A/S | | | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | **2005/06** | Amounts in DKKm | **2005/06** | 2004/05 |
| 1 | **1** | Pensions | **44** | 39 |
| - | **-** | Similar liabilities | **11** | 11 |
| 1 | **1** | **Total** | **55** | 50 |
| | | **Costs related to defined contribution plans** | | |
| 14 | **16** | Continuing operations | **33** | 27 |
| - | **-** | Discontinued operations | **-** | 31 |
| 14 | **16** | **Total** | **33** | 58 |
| | | **Costs related to defined benefit plans** | | |
| - | **-** | Pensions costs in the current financial year | **2** | 2 |
| - | **-** | Calculated interest on the obligations | **3** | 2 |
| - | **-** | **Total, continuing operations** | **5** | 4 |
| - | **-** | Discontinued operations | **-** | 6 |
| - | **-** | **Total** | **5** | 10 |
| 1 | **1** | Provisions for defined benefit plans at September 1 | **39** | 57 |
| - | **-** | Recognized in the current financial year | **5** | 10 |
| - | **-** | Payments to the plan assets | **-** | (1) |
| - | **-** | Divestment of business | **-** | (27) |
| 1 | **1** | **Obligations, defined benefit plans at August 31** | **44** | 39 |
| | | The pension obligations are specified as follows: | | |
| - | **-** | Present value of defined benefit plans | **-** | 1 |
| - | **-** | Fair value of plan assets | **-** | (1) |
| 1 | **1** | Present value of unfunded pension obligations | **54** | 53 |
| - | **-** | Unrecognized actuarial losses | **(10)** | (14) |
| 1 | **1** | **Total** | **44** | 39 |

Since the accumulated actuarial losses at September 1, 2005 do not exceed the numerical value of 10% of the pension obligations or 10% of the fair value of the plan assets in each plan, no allocation of actuarial loss is recognized for the financial year 2005/06.
The latest actuarial calculation of the pension obligations related to the defined benefit plans was made at August 31, 2006.

The actuarial calculations at the balance sheet date are based on the following factors:

| | | |
|---|---|---|
| Average discount rate used (%) | **4.75** | 4.25 |
| Expected return on plan assets (%) | **-** | - |
| Expected future rate of salary increase (%) | **2.50** | 2.50 |

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | 2005/06 | **9 Depreciation, amortization and impairment** | 2005/06 | 2004/05 |
| | | Depreciation, amortization and impairment are allocated as follows: | | |
| 21 | 8 | Cost of sales | 25 | 23 |
| 11 | 10 | Research and development expenses | 13 | 11 |
| 1 | 5 | Sales and marketing expenses | 6 | 1 |
| 17 | 21 | Administrative expenses | 29 | 22 |
| 50 | 44 | **Total, continuing operations** | 73 | 57 |
| - | - | Discontinued operations | - | 215 |
| 50 | 44 | **Total** | 73 | 272 |

## 10 Financial income

| 2004/05 | 2005/06 | | 2005/06 | 2004/05 |
|---|---|---|---|---|
| 3 | 6 | Interest on receivables from subsidiaries | - | - |
| 14 | 39 | Other interest income | 42 | 14 |
| - | 5 | Currency gains | 5 | 1 |
| - | 1 | Fair value adjustment of securities | 1 | - |
| 76 | 129 | Dividend from subsidiaries | - | - |
| 93 | 180 | **Total** | 48 | 15 |

## 11 Financial expenses

| 2004/05 | 2005/06 | | 2005/06 | 2004/05 |
|---|---|---|---|---|
| 2 | 2 | Interest on payables to subsidiaries | - | - |
| 77 | 2 | Other interest expenses | 2 | 80 |
| 3 | 6 | Currency losses | 6 | 3 |
| 2 | 5 | Impairment of investments in subsidiaries | - | - |
| 84 | 15 | **Total** | 8 | 83 |

## 12 Tax on profit for the year

| 2004/05 | 2005/06 | | 2005/06 | 2004/05 |
|---|---|---|---|---|
| 32 | - | Current income tax | 114 | 93 |
| (94) | (57) | Adjustment of deferred tax | (64) | (93) |
| (11) | - | Prior year adjustments | (1) | 2 |
| (73) | (57) | **Total** | 49 | 2 |
| (225) | (87) | Profit/(loss) before tax | 93 | (66) |
| 28% | 28% | Income tax, tax rate of 28% | 28% | 28% |
| - | - | Effect of deviation of foreign subsidiaries tax rate relative to Danish tax rate | 30% | (35%) |
| 1% | 38% | Non-taxable gains and non-deductible expenses | (8%) | 6% |
| 3% | - | Prior year adjustments | (3%) | (3%) |
| - | - | Other taxes and adjustments | 6% | 1% |
| 32% | 66% | **Effective tax rate for the year** | 53% | (3%) |

# Notes to the financial statements

## 13 Earnings per share

| Amounts in DKKm | ALK-Abelló Group 2005/06 | 2004/05 |
|---|---|---|
| The calculation of earnings per share is based on the following: | | |
| Profit/(loss) attributable to shareholders of the parent, continuing operations | 24 | (107) |
| Profit attributable to shareholders of the parent, discontinued operations | - | 4,409 |
| **Profit attributable to shareholders of the parent** | **24** | 4,302 |
| | | |
| Number in units | | |
| Average number of issued shares | 10,128,360 | 10,128,360 |
| Average number of treasury shares | 27,353 | 14,118 |
| **Average number of shares used for calculation of earnings per share** | **10,101,007** | 10,114,242 |
| Average dilutive effect of outstanding share options | 2,648 | 89,205 |
| **Average number of shares used for calculation of diluted earnings per share** | **10,103,655** | 10,203,447 |
| | | |
| Amounts in DKK | | |
| Earnings per share (EPS), continuing operations | 2.4 | (10.6) |
| Earnings per share (EPS), discontinued operations | - | 435.9 |
| Earnings per share (EPS) | 2.4 | 425.4 |
| | | |
| Diluted earnings per share (DEPS), continuing operations | 2.4 | (10.6) |
| Diluted earnings per share (DEPS), discontinued operations | - | 432.1 |
| Diluted earnings per share (DEPS) | 2.4 | 421.5 |

In accordance with IAS 33, no dilutive effect has been calculated for the diluted earnings per share of the continuing operations in 2004/05 as this would cause an increase of earnings per share.

## 14 Goodwill

| Amounts in DKKm | 2005/06 | 2004/05 |
|---|---|---|
| Cost at September 1 | 132 | 1,282 |
| Currency adjustments | (1) | 4 |
| Additions | 267 | 79 |
| Divestment of business | - | (1,233) |
| **Cost at August 31** | **398** | 132 |
| | | |
| Amortization and impairment at September 1 | 20 | 385 |
| Currency adjustments | - | 2 |
| Divestment of business | - | (367) |
| **Amortization and impairment at August 31** | **20** | 20 |
| | | |
| **Carrying amount at August 31** | **378** | 112 |

Goodwill has been subjected to an impairment test, which revealed no need for an impairment write-down. In the calculation of the value in use of the cash-generating unit, the cash flows in the latest Management-approved budget for the coming financial year have been used. For financial years after the budget period, the cash flows in the most recent budget period have been extrapolated adjusted for a growth factor during the terminal period of 2%. The applied growth rate does not exceed the average expected long-term growth rate for the markets in question.
The determined growth rates are based on industry forecasts.
Estimated changes in sales prices and production costs are based on historical data and expectations for future changes in the market.
The discount rate used is 10% after tax.

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | 2005/06 | **15 Other intangible assets** | 2005/06 | 2004/05 |
| | | **Software** | | |
| 97 | 99 | Cost at September 1 | 148 | 299 |
| - | - | Currency adjustments | - | 1 |
| 5 | 2 | Additions | 4 | 5 |
| (3) | - | Disposals | - | (5) |
| - | - | Divestment of business | - | (152) |
| 99 | 101 | **Cost at August 31** | 152 | 148 |
| 49 | 62 | Amortization and impairment at September 1 | 89 | 147 |
| 15 | 13 | Amortization and impairment for the year | 18 | 28 |
| (2) | - | Amortization and impairment on disposals | - | (4) |
| - | - | Divestment of business | - | (82) |
| 62 | 75 | **Amortization and impairment at August 31** | 107 | 89 |
| 37 | 26 | **Carrying amount at August 31** | 45 | 59 |
| 1 | - | Including finance costs of | - | 1 |
| | | **Patents, trademarks and rights** | | |
| 9 | 26 | Cost at September 1 | 26 | 142 |
| 17 | 4 | Additions | 4 | 17 |
| - | (6) | Disposals | (6) | (6) |
| - | - | Divestment of business | - | (127) |
| 26 | 24 | **Cost at August 31** | 24 | 26 |
| 9 | 10 | Amortization and impairment at September 1 | 10 | 113 |
| 1 | 5 | Amortization and impairment for the year | 5 | 8 |
| - | (6) | Amortization and impairment of disposals | (6) | (1) |
| - | - | Divestment of business | - | (110) |
| 10 | 9 | **Amortization and impairment at August 31** | 9 | 10 |
| 16 | 15 | **Carrying amount at August 31** | 15 | 16 |
| 53 | 41 | **Other intangible assets at August 31** | 60 | 75 |

# Notes to the financial statements

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Amounts in DKKm — 16 Land and buildings | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| 464 | **185** | Cost at September 1 | **335** | 1,508 |
| - | **-** | Currency adjustments | **(3)** | 7 |
| 5 | **1** | Additions | **4** | 89 |
| - | **-** | Acquisitions of companies and operations | **-** | 36 |
| - | **-** | Disposals | **-** | (8) |
| - | **45** | Transfer to/from other groups | **45** | - |
| (284) | **-** | Divestment of business | **-** | (1,297) |
| 185 | **231** | **Cost at August 31** | **381** | 335 |
| 110 | **51** | Depreciation and impairment at September 1 | **82** | 356 |
| - | **-** | Currency adjustments | **(1)** | - |
| 11 | **7** | Depreciation and impairment for the year | **13** | 36 |
| - | **-** | Acquisitions of companies and operations | **-** | 2 |
| - | **-** | Depreciation and impairment of disposals | **-** | (4) |
| - | **13** | Transfer to/from other groups | **14** | - |
| (70) | **-** | Divestment of business | **-** | (308) |
| 51 | **71** | **Depreciation and impairment at August 31** | **108** | 82 |
| 134 | **160** | **Carrying amount at August 31** | **273** | 253 |
| 2 | **-** | of which financing costs | **-** | 2 |
| - | **-** | of which assets held under finance leases | **32** | 31 |
| | | Land and buildings in Denmark include buildings on land leased from Scion DTU A/S, Hørsholm. The lease period for this land is unlimited. | | |
| 134 | **160** | Value of land and buildings subject to mortgages | **160** | 134 |

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Amounts in DKKm | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| | | **17 Plant and machinery** | | |
| 212 | 154 | Cost at September 1 | 240 | 1,215 |
| - | - | Currency adjustments | (1) | 8 |
| 4 | 11 | Additions | 17 | 93 |
| - | - | Acquisitions of companies and operations | - | 60 |
| (5) | (3) | Disposals | (4) | (39) |
| 7 | 19 | Transfer to/from other groups | 22 | 7 |
| (64) | - | Divestment of business | - | (1,104) |
| 154 | 181 | **Cost at August 31** | 274 | 240 |
| 98 | 62 | Depreciation and impairment at September 1 | 98 | 593 |
| - | - | Currency adjustments | - | 2 |
| 22 | 18 | Depreciation and impairment for the year | 27 | 111 |
| - | - | Acquisitions of companies and operations | - | 19 |
| (3) | (3) | Depreciation and impairment of disposals | (3) | (29) |
| (1) | (15) | Transfer to/from other groups | (14) | - |
| (54) | - | Divestment of business | - | (598) |
| 62 | 62 | **Depreciation and impairment at August 31** | 108 | 98 |
| 92 | 119 | **Carrying amount at August 31** | 166 | 142 |

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Amounts in DKKm | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| | | **18 Other fixtures and equipment** | | |
| 32 | 26 | Cost at September 1 | 132 | 351 |
| - | - | Currency adjustments | (1) | 6 |
| 1 | 2 | Additions | 10 | 34 |
| - | - | Acquisitions of companies and operations | - | 3 |
| (7) | (1) | Disposals | (6) | (22) |
| - | 1 | Transfer to/from other groups | 5 | - |
| - | - | Divestment of business | - | (240) |
| 26 | 28 | **Cost at August 31** | 140 | 132 |
| 31 | 25 | Depreciation and impairment at September 1 | 91 | 203 |
| - | - | Currency adjustments | (1) | 2 |
| 1 | 1 | Depreciation and impairment for the year | 10 | 33 |
| - | - | Acquisitions of companies and operations | - | 2 |
| (7) | (1) | Depreciation and impairment of disposals | (5) | (20) |
| - | - | Divestment of business | - | (129) |
| 25 | 25 | **Depreciation and impairment at August 31** | 95 | 91 |
| 1 | 3 | **Carrying amount at August 31** | 45 | 41 |

# Notes to the financial statements

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Amounts in DKKm | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| | | **19 Property, plant and equipment in progress** | | |
| 58 | 71 | Cost at September 1 | 76 | 184 |
| - | - | Currency adjustments | - | 1 |
| 33 | 58 | Additions | 68 | 134 |
| (9) | - | Disposals | - | (62) |
| (11) | (67) | Transfer to/from other groups | (73) | (11) |
| - | - | Divestment of business | - | (170) |
| 71 | 62 | **Cost at August 31** | 71 | 76 |
| 71 | 62 | **Carrying amount at August 31** | 71 | 76 |
| 1 | - | of which financing costs | - | 1 |

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Amounts in DKKm |
|---|---|---|
| | | **20 Investments in subsidiaries** |
| 265 | 441 | Cost at September 1 |
| 176 | 287 | Additions |
| 441 | 728 | **Cost at August 31** |
| - | 2 | Impairment at September 1 |
| 2 | 5 | Impairment for the year |
| 2 | 7 | **Impairment at August 31** |
| 439 | 721 | **Carrying amount at August 31** |
| | | **21 Receivables from subsidiaries** |
| 1,000 | 157 | Cost at September 1 |
| 85 | - | Additions |
| (928) | (32) | Disposals |
| 157 | 125 | **Cost at August 31** |
| 157 | 125 | **Carrying amount at August 31** |
| | | Receivables from subsidiaries are recognised as follows: |
| 85 | 88 | Non-current assets |
| 72 | 37 | Current assets |
| 157 | 125 | **Total** |

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | 2005/06 | **22 Securities and receivables** | 2005/06 | 2004/05 |
| 4 | 6 | Cost at September 1 | 6 | 4 |
| 4 | - | Additions | - | 3 |
| - | - | Acquisitions of companies and operations | - | 2 |
| (2) | (2) | Disposals | (2) | (2) |
| - | - | Divestment of business | - | (1) |
| 6 | 4 | **Cost at August 31** | 4 | 6 |
| - | - | Revaluation and impairment at September 1 | 3 | 7 |
| - | - | Disposals | (2) | - |
| - | - | Divestment of business | - | (4) |
| - | - | **Revaluation and impairment at August 31** | 1 | 3 |
| 6 | 4 | **Carrying amount at August 31** | 5 | 9 |

## 23 Deferred tax

| Amounts in DKKm | Non-current assets | Current assets | Liabilities | Tax losses carried forward | Total |
|---|---|---|---|---|---|
| **ALK-Abelló Group** | | | | | |
| Carrying amount at September 1, 2005 | 25 | 13 | 32 | 80 | 150 |
| Recognized in the income statement, net | 49 | (1) | (8) | 24 | 64 |
| **Carrying amount at August 31, 2006** | 74 | 12 | 24 | 104 | 214 |
| Carrying amount at September 1, 2004 | (75) | 81 | 34 | 17 | 57 |
| Recognized in the income statement, net | 100 | (68) | (2) | 63 | 93 |
| **Carrying amount at August 31, 2005** | 25 | 13 | 32 | 80 | 150 |
| **ALK-Abelló A/S** | | | | | |
| Carrying amount at September 1, 2005 | 24 | 1 | 15 | 76 | 116 |
| Recognized in the income statement, net | 51 | (6) | (13) | 25 | 57 |
| **Carrying amount at August 31, 2006** | 75 | (5) | 2 | 101 | 173 |
| Carrying amount at September 1, 2004 | (52) | 31 | 30 | 13 | 22 |
| Recognized in the income statement, net | 76 | (30) | (15) | 63 | 94 |
| **Carrying amount at August 31, 2005** | 24 | 1 | 15 | 76 | 116 |

Deferred tax in both ALK-Abelló A/S and the ALK-Abelló Group is recognized as tax assets in the balance sheet.

No deferred tax liability has been recognised in respect of temporary differences on investments in subsidiaries as the ALK-Abelló Group is able to verify whether the liability crystallizes, and it is probable that no tax will crystallize in the forseeable future.

# Notes to the financial statements

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Amounts in DKKm | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| | | **24 Inventories** | | |
| 31 | 43 | Raw materials and consumables | 79 | 56 |
| 48 | 48 | Work in progress | 84 | 83 |
| 56 | 48 | Manufactured goods and goods for resale | 124 | 159 |
| 135 | 139 | **Total** | 287 | 298 |
| 27 | 20 | Write-down of inventories | 31 | 34 |

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Amounts in DKKm | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| | | **25 Receivables and prepayments** | | |
| 25 | 20 | **Trade receivables** | 188 | 179 |
| 1 | - | Provision for doubtful debts | 11 | 6 |
| | | **Other receivables** | | |
| - | - | VAT and other taxes | 3 | 3 |
| 15 | 1 | Miscellaneous receivables | 16 | 18 |
| 15 | 1 | **Total** | 19 | 21 |
| | | **Prepayments** | | |
| 2 | 2 | Operating expenses | 8 | 7 |
| - | - | Insurance | 1 | 1 |
| - | - | Other prepayments | 4 | 6 |
| 2 | 2 | **Total** | 13 | 14 |

The carrying amount is equivalent to the fair value of the assets.

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Amounts in DKKm | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| | | **26 Cash and cash equivalents** | | |
| - | 407 | Securities subject to insignificant risk of changes in value | 412 | - |
| 5,387 | 573 | Cash and bank deposits | 657 | 5,540 |
| 5,387 | 980 | **Cash and cash equivalents** | 1,069 | 5,540 |

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | Amounts in DKKm | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| | | **27 Share capital** | | |
| | | The share capital consists of: | | |
| 9 | 9 | A shares, 920,760 shares of DKK 10 each | 9 | 9 |
| 92 | 92 | B shares, 9,207,600 shares of DKK 10 each | 92 | 92 |
| 101 | 101 | **Total nominal value** | 101 | 101 |

Each A share carries 10 votes, whereas each B share carries 1 vote.

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | 2005/06 | **28 Mortgage debt and bank loans and financial loans** | 2005/06 | 2004/05 |
| | | **Debt to mortgage credit institutions secured by real property:** | | |
| | | Mortgage debt is due as follows: | | |
| 10 | 2 | Payable on demand within 1 year | 2 | 10 |
| 30 | 8 | Between 1-5 years | 8 | 30 |
| 14 | 41 | After 5 years | 41 | 14 |
| 54 | 51 | **Total** | 51 | 54 |
| | | **Bank loans and financial loans** | | |
| | | Bank loans and financial loans are due as follows: | | |
| - | - | Payable on demand within 1 year | 10 | 5 |
| - | - | Between 1-5 years | 14 | 13 |
| - | - | After 5 years | 9 | 13 |
| - | - | **Total** | 33 | 31 |

| | Currency | Expiry date | Fixed/Floating | Effective interest rate % | Carrying amount DKKm | Fair value DKKm |
|---|---|---|---|---|---|---|
| **ALK-Abelló Group** | | | | | | |
| **August 31, 2006** | | | | | | |
| Mortgage debt | DKK | 2025 | Fixed | 4.3 | 34 | 32 |
| Mortgage debt | EUR | 2023 | Floating | 4.0 | 17 | 17 |
| | | | | | 51 | 49 |
| **August 31, 2005** | | | | | | |
| Mortgage debt | DKK | 2009 | Fixed | 4.7 | 37 | 37 |
| Mortgage debt | EUR | 2023 | Floating | 4.0 | 17 | 18 |
| | | | | | 54 | 55 |
| **ALK-Abelló A/S** | | | | | | |
| **August 31, 2006** | | | | | | |
| Mortgage debt | DKK | 2025 | Fixed | 4.3 | 34 | 32 |
| Mortgage debt | EUR | 2023 | Floating | 4.0 | 17 | 17 |
| | | | | | 51 | 49 |
| **31. august 2005** | | | | | | |
| Mortgage debt | DKK | 2009 | Fixed | 4.7 | 37 | 37 |
| Mortgage debt | EUR | 2023 | Floating | 4.0 | 17 | 18 |
| | | | | | 54 | 55 |

Mortgage debt denominated in EUR relates to interest-reset loans which will be reset in 2008.

# Notes to the financial statements

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | **2005/06** | **29 Other provisions** | **2005/06** | 2004/05 |
| 60 | **140** | Other provisions at September 1 | **147** | 69 |
| 140 | **-** | Provisions made during the year | **2** | 142 |
| - | **-** | Acquisitions of companies and operations | **-** | 1 |
| (40) | **-** | Used during the year | **(1)** | (40) |
| (20) | **-** | Reversals during the year | **(1)** | (20) |
| - | **-** | Divestment of business | **-** | (5) |
| 140 | **140** | **Provisions at August 31** | **147** | 147 |

In connection with the divestment of the ingredients business in 2004/05, ALK-Abelló A/S has undertaken the usual representations and warranties towards the buyer. The representations and warranties expire successively over the coming years. A provision of DKK 140 million has been made to cover specific risks, including environmental issues.

## 30 Other current liabilities and deferred income

| 2004/05 | 2005/06 | | 2005/06 | 2004/05 |
|---|---|---|---|---|
| 87 | **64** | **Trade payables** | **126** | 148 |
| | | **Other payables** | | |
| 27 | **24** | Salaries, holiday payments, etc. | **61** | 56 |
| 5 | **-** | VAT and other taxes | **18** | 22 |
| 46 | **-** | Share options | **-** | 46 |
| 22 | **21** | Acquisitions of companies and operations | **21** | 22 |
| 37 | **76** | Miscellaneaous payables | **87** | 57 |
| 137 | **121** | **Total** | **187** | 203 |
| | | **Deferred income** | | |
| 4 | **3** | Prepayment of goods and services | **29** | 23 |
| - | **-** | VAT and other taxes | **3** | 2 |
| 4 | **3** | **Total** | **32** | 25 |

The carrying amount is equivalent to the fair value of the liabilities.

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | 2005/06 | **31 Treasury shares** | 2005/06 | 2004/05 |
| 14,118 | 14,118 | Treasury shares at September 1 (B shares, units) | 14,118 | 14,118 |
| - | 75,000 | Purchase of treasury shares, units | 75,000 | - |
| - | (14,118) | Sale of treasury shares, units | (14,118) | - |
| 14,118 | 75,000 | **Treasury shares at August 31 (B shares, units)** | 75,000 | 14,118 |
| 0.1% | 0.7% | Proportion of share capital at August 31 | 0.7% | 0.1% |
| 0.1 | 0.8 | Nominal value at August 31 | 0.8 | 0.1 |
| 13 | 57 | Market value at August 31 | 57 | 13 |

According to a resolution passed by the Company at the Annual general meeting, the Company is allowed to purchase treasury shares, equal to 10% of the share capital. The Company has purchased treasury shares in connection with the issuance of share options and employee shares.

## 32 Contingent assets and liabilities and commitments

| ALK-Abelló A/S 2004/05 | ALK-Abelló A/S 2005/06 | | ALK-Abelló Group 2005/06 | ALK-Abelló Group 2004/05 |
|---|---|---|---|---|
| - | - | Collaterals and guarantees | 3 | 5 |

**Contingent liabilities and assets**
The Board of Management believes that the outcome of pending claims and other disputes will not have a material impact on the Company's and ALK-Abelló Group's financial position.

In connection with the divestment of the ingredients business in 2004/05, ALK-Abelló A/S has undertaken the usual representations and warranties towards the buyer. The representations and warranties expire successively over the coming years. A provision of DKK 140 million has been made to cover specific risks, including environmental issues.

In connection with the sale of the ingredients business in 2004/05, there is still some uncertainty as to a possible adjustment of the disposal amount. There is also uncertainty as to a possible adjustment of the acquisition amount in connection with the acquisition of a subsidiary in 2004/05. Management assumes that any adjustments will not cause any loss, as possible adjustments are already recognized in the balance sheet.

Liabilities relating to research and development projects are estimated at DKK 2 million at August 31, 2006 (August 31, 2005: DKK 3 million).

**Commitments**
ALK-Abelló A/S and Chr. Hansen A/S are jointly and severally liable for the joint corporation tax for the period until August 31, 2005. At August 31, 2005, the jointly taxed companies had no current tax liability. For information on land and buildings provided as security vis-à-vis credit institutions, see note 16.

# Notes to the financial statements

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | 2005/06 | **33 Operating lease liabilities** | 2005/06 | 2004/05 |
| 8 | 9 | Mimimum lease payments recognized in the income statement | 12 | 10 |
| | | The total future minimum lease payments under interminable lease agreements are allocated as follows: | | |
| 9 | 9 | Within 1 year | 12 | 11 |
| 26 | 19 | Between 1-5 years | 27 | 31 |
| 1 | 1 | After 5 years | 1 | 1 |
| 36 | 29 | **Total** | 40 | 43 |

## 34 Finance lease liabilities

| 2004/05 | 2005/06 | | 2005/06 | 2004/05 |
|---|---|---|---|---|
| | | Finance lease liabilities are due as follows: | | |
| - | - | Within 1 year | 5 | 4 |
| - | - | Between 1-5 years | 15 | 18 |
| - | - | After 5 years | 13 | 12 |
| - | - | **Total** | 33 | 34 |
| - | - | Amortization premium for future expensing | 4 | 5 |
| - | - | **Present value of finance lease liabilities** | 29 | 29 |

## 35 Exchange rate, interest rate and credit exposure and the use of derivative financial instruments

**Financial risk management policy**

As a result of its operations, its investments and its financing, the ALK-Abelló Group is exposed to exchange and interest rate changes. ALK-Abelló A/S manages the ALK-Abelló Group's financial risks centrally and coordinates the ALK-Abelló Group's cash management, including the raising of capital and investment of excess cash. The ALK-Abelló Group complies with a policy, approved by the Board of Directors, to maintain a low risk profile, ensuring that the ALK-Abelló Group is only exposed to exchange rate, interest rate and credit risk in connection with its commercial activities.

*Exchange rate exposure*

The ALK-Abelló Group mainly hedges its foreign exchange exposure through matching of payments received and paid in the same currency and through forward exchange contracts and currency options.

*Interest rate exposure*

The ALK-Abelló Group does not hedge its interest rate exposure, as this is not considered to be financially viable.

*Credit exposure*

According to the ALK-Abelló Group's credit risk policy, all major customers and other business partners are credit rated regularly.

## 35 Exchange rate, interest rate and credit exposure and the use of derivative financial instruments (continued)

### Exchange rate exposure – recognised assets and liabilities

The ALK-Abelló Group uses hedging instruments in the form of forward exchange contracts and currency options to hedge recognised assets and liabilities. Hedging of recognised assets and liabilities mainly comprises cash and cash equivalents, receivables and financial liabilities.

| Amounts in DKKm | Cash and cash equivalents | Receivables | Liabilities | Amount hedged | Net position |
|---|---|---|---|---|---|
| **ALK-Abelló Group** | | | | | |
| **August 31, 2006** | | | | | |
| DKK | 933 | 14 | (342) | - | 605 |
| USD | 29 | 29 | (48) | (3) | 13 |
| EUR | 101 | 144 | (272) | 1 | (28) |
| GBP | 1 | 26 | (21) | 3 | 3 |
| SEK | - | 8 | (9) | - | (1) |
| Other | 5 | 5 | (3) | - | 7 |
| **Total** | 1,069 | 226 | (695) | 1 | 599 |
| **August 31, 2005** | | | | | |
| DKK | 5,378 | 36 | (393) | - | 5,021 |
| USD | 18 | 25 | (45) | - | (2) |
| EUR | 141 | 131 | (251) | - | 21 |
| GBP | - | 23 | (10) | - | 13 |
| SEK | - | 8 | (5) | - | 3 |
| Other | 3 | 5 | (3) | - | 5 |
| **Total** | 5,540 | 228 | (707) | - | 5,061 |
| **ALK-Abelló A/S** | | | | | |
| **August 31, 2006** | | | | | |
| DKK | 933 | 14 | (337) | - | 610 |
| USD | 21 | 82 | (198) | (3) | (92) |
| EUR | 23 | 37 | (33) | 1 | 26 |
| GBP | - | 18 | (5) | 3 | 10 |
| SEK | - | - | (1) | - | (1) |
| Other | 3 | 1 | - | - | 4 |
| **Total** | 980 | 152 | (574) | 1 | 557 |
| **August 31, 2005** | | | | | |
| DKK | 5,378 | 35 | (480) | - | 4,933 |
| USD | - | 99 | (15) | - | 84 |
| EUR | 8 | 37 | (27) | - | 18 |
| GBP | 1 | 27 | (2) | - | 26 |
| SEK | - | 1 | - | - | 1 |
| Other | - | 6 | (1) | - | 5 |
| **Total** | 5,387 | 205 | (525) | - | 5,067 |

At August 31, 2006, the fair value of derivative financial instruments entered into to hedge recognised financial assets and liabilities against exchange rate exposure totals DKK 0 million (2004/05: DKK 0 million) for the ALK-Abelló Group and DKK 0 million (2004/05:DKK 0 million) for ALK-Abelló A/S. The fair value of the derivative financial instruments is recognised under other payables and in the income statement is set off against exchange rate adjustments of the hedged assets and liabilities.

# Notes to the financial statements

## 35 Exchange rate, interest rate and credit exposure and the use of derivative financial instruments (continued)

**Exchange rate exposure – future transactions**

The ALK-Abelló Group hedges exchange rate exposure regarding future sales and purchases of goods in the coming year by means of forward exchange contracts and currency options in accordance with the ALK-Abelló Group's policy. Open exchange rate hedging contracts are specified as follows, where contracts for the sale of currency are stated with a positive contract value:

| Amounts in DKKm | Term to maturity | Contract value | Fair value | Value adjustment recognised in equity |
|---|---|---|---|---|
| **ALK-Abelló Group** | | | | |
| **August 31, 2006** | | | | |
| Forward exchange contracts, USD | 3 | (26) | - | - |
| Forward exchange contracts, EUR | 1 | 9 | - | - |
| Forward exchange contracts, GBP | 2 | 19 | - | - |
| Forward exchange contracts, SEK | 3 | 3 | - | - |
| **Total** | | 5 | - | - |
| **ALK-Abelló A/S** | | | | |
| **August 31, 2006** | | | | |
| Forward exchange contracts, USD | 3 | (26) | - | - |
| Forward exchange contracts, EUR | 1 | 9 | - | - |
| Forward exchange contracts, GBP | 2 | 19 | - | - |
| Forward exchange contracts, SEK | 3 | 3 | - | - |
| **Total** | | 5 | - | - |

At August 31, 2005, the ALK-Abelló Group and ALK-Abelló A/S had no exchange rate hedging contracts.

## 35 Exchange rate, interest rate and credit exposure and the use of derivative financial instruments (continued)

### Interest rate exposure

On the ALK-Abelló Group's financial assets and financial liabilities, the earlier of the contractual revaluation and payment dates are as follows. Effective interest rates are stated on the basis of the level of interest rates at the balance sheet date.

| | Revaluation/payment date | | | | | |
|---|---|---|---|---|---|---|
| Amounts in DKKm | Within 1 year | Between 1-5 years | After 5 years | Total | Of these, fixed interest | Effective interest rate % |
| **ALK-Abelló Group** | | | | | | |
| **August 31, 2006** | | | | | | |
| Securities and receivables | 5 | - | - | 5 | - | |
| Trade receivables | 188 | - | - | 188 | - | |
| Other receivables | 33 | - | - | 33 | - | |
| Cash and cash equivalents | 1,069 | - | - | 1,069 | 407 | 2.0 |
| **Financial assets** | 1,295 | - | - | 1,295 | 407 | |
| | | | | | | |
| Mortgage debt, bank loans and financial loans | 12 | 22 | 50 | 84 | 63 | 4.0-4.3 |
| Trade payables | 126 | - | - | 126 | - | |
| Other financial liabilities | 267 | 16 | - | 283 | - | |
| **Financial liabilities** | 405 | 38 | 50 | 493 | 63 | |
| | | | | | | |
| **August 31, 2005** | | | | | | |
| Securities and receivables | 9 | - | - | 9 | - | |
| Trade receivables | 179 | - | - | 179 | - | |
| Other receivables | 40 | - | - | 40 | - | |
| Cash and cash equivalents | 5,540 | - | - | 5,540 | - | 2.0 |
| **Financial assets** | 5,768 | - | - | 5,768 | - | |
| | | | | | | |
| Mortgage debt, bank loans and financial loans | 15 | 43 | 27 | 85 | 66 | 4.0-4.7 |
| Trade payables | 148 | - | - | 148 | - | |
| Other financial liabilities | 261 | 16 | - | 277 | - | |
| **Financial liabilities** | 424 | 59 | 27 | 510 | 66 | |

# Notes to the financial statements

## 35 Exchange rate, interest rate and credit exposure and the use of derivative financial instruments (continued)

| Amounts in DKKm | Revaluation/payment date: Within 1 year | Between 1-5 years | After 5 years | Total | Of these, fixed interest | Effective interest rate % |
|---|---|---|---|---|---|---|
| **ALK-Abelló A/S** | | | | | | |
| **August 31, 2006** | | | | | | |
| Securities and receivables | 4 | - | - | 4 | - | |
| Trade receivables | 20 | - | - | 20 | - | |
| Other receivables | 128 | - | - | 128 | - | |
| Cash and cash equivalents | 980 | - | - | 980 | 407 | 2.0 |
| **Financial assets** | 1,132 | - | - | 1,132 | 407 | |
| Mortgage debt, bank loans and financial loans | 2 | 8 | 41 | 51 | 34 | 4.0-4.3 |
| Trade payables | 64 | - | - | 64 | - | |
| Other financial liabilities | 302 | 16 | - | 318 | - | |
| **Financial liabilities** | 368 | 24 | 41 | 433 | 34 | |
| **August 31, 2005** | | | | | | |
| Securities and receivables | 6 | - | - | 6 | - | |
| Trade receivables | 25 | - | - | 25 | - | |
| Other receivables | 174 | - | - | 174 | - | |
| Cash and cash equivalents | 5,387 | - | - | 5,387 | - | 2.0 |
| **Financial assets** | 5,592 | - | - | 5,592 | - | |
| Mortgage debt, bank loans and financial loans | 10 | 30 | 14 | 54 | 37 | 4.0-4.7 |
| Trade payables | 87 | - | - | 87 | - | |
| Other financial liabilities | 227 | 16 | - | 243 | - | |
| **Financial liabilities** | 324 | 46 | 14 | 384 | 37 | |

**Credit exposure**

The ALK-Abelló Group's primary credit exposure is related to trade receivables and cash and cash equivalents. The ALK-Abelló Group has no major exposure relating to any one customer or business partner. According to the ALK-Abelló Group's policy for assuming credit exposure, all customers and business partners are credit rated regularly.

**Embedded derivative financial instruments**

The ALK-Abelló Group has made a review of contracts that might contain terms that would make the contract or parts thereof a derivative financial instrument. The review did not lead to recognition of derivative financial instruments relating to the contracts.

| ALK-Abelló A/S | | Amounts in DKKm | ALK-Abelló Group | |
|---|---|---|---|---|
| 2004/05 | 2005/06 | **36 Related parties** | 2005/06 | 2004/05 |

### Related parties exercising control

Parties exercising control are ALK-Abelló A/S' principal shareholder, LFI a/s and its principal shareholder, Lundbeckfonden. Other related parties comprise ALK-Abelló A/S' Board of Management and Board of Directors, companies in which the principal shareholders exercise control and their subsidiaries, in this case H. Lundbeck A/S and its subsidiaries.

For a list of subsidiaries, see page 76.

### Subsidiaries

| 2004/05 | 2005/06 | | 2005/06 | 2004/05 |
|---|---|---|---|---|
| | | Intra-group trading comprised: | | |
| 367 | 352 | Sale of goods and services | | |
| 15 | 18 | Purchase of goods and services | | |

In respect of amounts owed by and to subsidiaries, see the balance sheet. Interest regarding intra-group accounts are shown in notes 10 and 11.

Intra-group transactions and accounts have been eliminated in the consolidated financial statements in accordance with the accounting policies.

No security or guarantees have been issued for amounts outstanding at the balance sheet date. Receivables as well as debt will be settled against payment in cash. During the financial year, no bad debt losses have been realised regarding amounts owed by related parties, nor have any provisions been made for any such doubtful debts.

### Remuneration etc. to Board of Directors and Board of Management

For information on remuneration paid to the ALK-Abelló Group's Board of Directors and Board of Management, see note 6.

No other transactions have taken place during the year with the Board of Directors, Board of Management, other key employees, major shareholders or other related parties.

## 37 Fees to the ALK-Abelló Group's auditors

Fees to the auditors, Deloitte, appointed at the general meeting:

| 2004/05 | 2005/06 | | 2005/06 | 2004/05 |
|---|---|---|---|---|
| 1 | 1 | Audit | 3 | 4 |
| 5 | - | Non-audit services | 1 | 5 |
| 6 | 1 | **Total** | 4 | 9 |

# Notes to the financial statements

## 38 Effect of changes to the accounting policies on transition to IFRS

As mentioned in the Management´s review and in the accounting policies, as from 2005/06 the ALK-Abelló Group and ALK-Abelló A/S are presenting their annual report in accordance with the International Financial Reporting Standards (IFRS) and additional Danish disclosure requirements for annual reports of listed companies. As a result of this transition, the accounting policies of the ALK-Abelló Group and ALK-Abelló A/S have been changed in a number of areas. IFRS has been implemented so that the annual report also complies with the provisions of the IFRSs approved by the EU.

In accordance with IFRS 1, the opening balance sheet at September 1, 2004 and comparative figures for 2004/05 have been prepared in accordance with those IFRS/IASs and IFRIC/SICs that are mandatory at August 31, 2006. The opening balance sheet at September 1, 2004 has been prepared as if those standards and interpretations had always been applied, with the exception of the special transition and effective date provisions described in the accounting policies in note 1.

**Explanation of changes to accounting policies on transition to IFRS:**

**A)** Goodwill amortization ceases and is replaced by annual impairment tests. The balance sheet value at September 1, 2004 will be considered the basic value for future measurement. The net profit for the year and equity at August 31, 2005 are therefore increased by the amount of the amortization made under the previous accounting policies in 2004/05.

**B)** Minority interests are recognized as equity, and the minority interests' share of the profit for the year is not recognized as an expense in the income statement.

**C)** At September 1, 2004, the ALK-Abelló Group had an unrecognized actuarial loss. In accordance with the provisions of IFRS 1, the ALK-Abelló Group has chosen to reset this loss to zero by increasing the pension provision by this amount and adjust equity correspondingly.

**D)** Deferred tax on the IFRS adjustments made.

**E)** A significant portion of the adjustments relate to the ingredients business and are therefore reversed in connection with the divestment of this business at July 29, 2005 as an adjustment of the gain calculated according to the previous accounting policies.

**F)** ALK-Abelló A/S' investments in subsidiaries are measured at cost. Revaluations of investments have been reversed at September 1, 2005, and equity has been adjusted accordingly.

The financial impact of the transition to IFRS is as follows for the ALK-Abelló Group and ALK-Abelló A/S:

## 38 Effect of changes to the accounting policies on transition to IFRS (continued)

**The effect on the net profit for 2004/05:**
**ALK-Abelló Group**

| Amounts in DKKm | Note | Previous accounting policies | Reclassifi-cations* | Adjustments | IFRS/IAS accounting policies |
|---|---|---|---|---|---|
| **Revenue** | | 4,381 | (3,164) | - | 1,217 |
| Cost of sales | | 2,345 | (1,932) | - | 413 |
| **Gross profit** | | 2,036 | (1,232) | - | 804 |
| | | | | | |
| Research and development expenses | | 442 | (210) | - | 232 |
| Sales and marketing expenses | | 765 | (407) | - | 358 |
| Administrative expenses | C | 425 | (259) | 1 | 167 |
| Other operating income | | 17 | (16) | - | 1 |
| Other operating expenses | | 9 | (9) | - | - |
| **Operating profit before special items** | | 412 | (363) | (1) | 48 |
| | | | | | |
| Settlement of share options | | 46 | - | - | 46 |
| Amortization of goodwill | A | 59 | (56) | (3) | - |
| **Operating profit (EBIT)** | | 307 | (307) | 2 | 2 |
| | | | | | |
| Profit before tax from divestment | | 4,206 | (4,206) | - | - |
| Financial income | | 39 | (24) | - | 15 |
| Financial expenses | | 157 | (74) | - | 83 |
| **Profit/(loss) before tax (EBT)** | | 4,395 | (4,463) | 2 | (66) |
| | | | | | |
| Tax on profit | | 75 | (73) | - | 2 |
| **Profit/(loss) after tax** | | 4,320 | (4,390) | 2 | (68) |
| | | | | | |
| Extraordinary income after tax | | 14 | (14) | - | - |
| **Net profit, continuing operations** | | 4,334 | (4,404) | 2 | (68) |
| | | | | | |
| Net profit, discontinued operations | E | - | 4,397 | 19 | 4,416 |
| **Net profit (including minority interests)** | | 4,334 | (7) | 21 | 4,348 |
| | | | | | |
| Minority interests' share of net profit | B | 46 | (7) | (39) | - |
| **Net profit** | | 4,288 | - | 60 | 4,348 |
| | | | | | |
| **Attributable to:** | | | | | |
| Shareholders of the parent company | | | | | 4,302 |
| Minority interests | | | | | 46 |
| | | | | | 4,348 |

*) Reclassifications include restatement of the discontinued ingredients business to a separate line item "Net profit, discontinued operations".

# Notes to the financial statements

## 38 Effect of changes to the accounting policies on transition to IFRS (continued)

**The effect on the net profit for 2004/05:**
**ALK-Abelló A/S**

| Amounts in DKKm | Note | Previous accounting policies | Reclassifi-cations* | Adjustments | IFRS/IAS accounting policies |
|---|---|---|---|---|---|
| **Revenue** | | 447 | - | - | 447 |
| Cost of sales | | 293 | (9) | - | 284 |
| **Gross profit** | | 154 | 9 | - | 163 |
| Research and development expenses | | 218 | (5) | - | 213 |
| Sales and marketing expenses | | 72 | (1) | - | 71 |
| Administrative expenses | | 78 | (11) | - | 67 |
| Other operating income | | 64 | (63) | - | 1 |
| Other operating expenses | | 26 | (25) | - | 1 |
| **Operating profit before special items** | | (176) | (12) | - | (188) |
| Settlement of share options | | 46 | - | - | 46 |
| Amortization of goodwill | | - | - | - | - |
| **Operating profit (EBIT)** | | (222) | (12) | - | (234) |
| Profit/(loss) in subsidiaries before tax | F | 304 | (141) | (163) | - |
| Profit before tax from divestment | | 4,206 | (4,206) | - | - |
| Financial income | F | 45 | (28) | 76 | 93 |
| Financial expenses | | 109 | (27) | 2 | 84 |
| **Profit/(loss) before tax (EBT)** | | 4,224 | (4,360) | (89) | (225) |
| Tax on profit | D | 35 | (62) | (46) | (73) |
| **Profit/(loss) after tax** | | 4,189 | (4,298) | (43) | (152) |
| Extraordinary income after tax | | 14 | (14) | - | - |
| **Net profit, continuing operations** | | 4,203 | (4,312) | (43) | (152) |
| Net profit, discontinued operations | E | - | 4,397 | 19 | 4,416 |
| **Net profit** | | 4,203 | 85 | (24) | 4,264 |

*) Reclassifications include restatement of the discontinued ingredients business to a separate line item "Net profit, discontinued operations".

## 38 Effect of changes to the accounting policies on transition to IFRS (continued)

**The effect on the balance sheet:**
**ALK-Abelló Group**

| Amounts in DKKm | Note | September 1, 2004 Previous accounting policies | September 1, 2004 Adjustments | September 1, 2004 IFRS/IAS accounting policies | August 31, 2005 Previous accounting policies | August 31, 2005 Adjustments | August 31, 2005 IFRS/IAS accounting policies |
|---|---|---|---|---|---|---|---|
| **Intangible assets** | | | | | | | |
| Goodwill | A | 897 | (37) | 860 | 109 | 3 | 112 |
| Other intangible assets | E | 181 | 39 | 220 | 75 | - | 75 |
| | | 1,078 | 2 | 1,080 | 184 | 3 | 187 |
| **Tangible assets** | | 2,106 | - | 2,106 | 512 | - | 512 |
| **Other non-current assets** | | | | | | | |
| Securities and receivables | | 11 | - | 11 | 9 | - | 9 |
| Deferred tax asset | D | 131 | 2 | 133 | 150 | - | 150 |
| | | 142 | 2 | 144 | 159 | - | 159 |
| **Total non-current assets** | | 3,326 | 4 | 3,330 | 855 | 3 | 858 |
| **Total current assets** | | 1,925 | - | 1,925 | 6,057 | - | 6,057 |
| **Total assets** | | 5,251 | 4 | 5,255 | 6,912 | 3 | 6,915 |
| **Equity** | | | | | | | |
| Share capital | | 101 | - | 101 | 101 | - | 101 |
| Other reserves | A | 1,801 | (3) | 1,798 | 6,069 | 3 | 6,072 |
| Attributable to shareholders of the parent company | | 1,902 | (3) | 1,899 | 6,170 | 3 | 6,173 |
| Minority interests | B | 43 | - | 43 | 35 | - | 35 |
| **Total equity** | | 1,945 | (3) | 1,942 | 6,205 | 3 | 6,208 |
| **Non-current liabilities** | | | | | | | |
| Mortgage debt | | 342 | - | 342 | 44 | - | 44 |
| Bank loans and financial loans | | 1,566 | - | 1,566 | 26 | - | 26 |
| Pensions and similar liabilities | C | 68 | 7 | 75 | 50 | - | 50 |
| Deferred tax | | 74 | - | 74 | - | - | - |
| Other provisions | | 69 | - | 69 | 147 | - | 147 |
| Other payables | | 1 | - | 1 | 16 | - | 16 |
| | | 2,120 | 7 | 2,127 | 283 | - | 283 |
| **Current liabilities** | | 1,186 | - | 1,186 | 424 | - | 424 |
| **Total liabilities** | | 3,306 | 7 | 3,313 | 707 | - | 707 |
| **Total equity and liabilities** | | 5,251 | 4 | 5,255 | 6,912 | 3 | 6,915 |

# Notes to the financial statements

## 38 Effect of changes to the accounting policies on transition to IFRS (continued)

**The effect on the balance sheet:**
**ALK-Abelló A/S**

| | | September 1, 2004 | | | August 31, 2005 | | |
|---|---|---|---|---|---|---|---|
| Amounts in DKKm | Note | Previous accounting policies | Adjustments | IFRS/IAS accounting policies | Previous accounting policies | Adjustments | IFRS/IAS accounting policies |
| **Non-current assets** | | | | | | | |
| **Intangible assets** | | 47 | - | 47 | 53 | - | 53 |
| **Tangible assets** | | 520 | - | 520 | 298 | - | 298 |
| **Other non-current assets** | | | | | | | |
| Investment in subsidiaries | F | 2,225 | (30) | 2,195 | 501 | (62) | 439 |
| Receivables from subsidiaries | | - | - | - | 85 | - | 85 |
| Securities and receivables | | 5 | - | 5 | 6 | - | 6 |
| Deferred tax asset | | 31 | - | 31 | 116 | - | 116 |
| | | 2,261 | (30) | 2,231 | 708 | (62) | 646 |
| **Total non-current assets** | | 2,828 | (30) | 2,798 | 1,059 | (62) | 997 |
| **Total current assets** | | 390 | - | 390 | 5,636 | - | 5,636 |
| **Total assets** | | 3,218 | (30) | 3,188 | 6,695 | (62) | 6,633 |
| **Equity** | | | | | | | |
| Share capital | | 101 | - | 101 | 101 | - | 101 |
| Other reserves | F | 1,801 | (30) | 1,771 | 6,069 | (62) | 6,007 |
| **Total equity** | | 1,902 | (30) | 1,872 | 6,170 | (62) | 6,108 |
| **Non-current liabilities** | | 849 | - | 849 | 201 | - | 201 |
| **Current liabilities** | | 467 | - | 467 | 324 | - | 324 |
| **Total liabilities** | | 1,316 | - | 1,316 | 525 | - | 525 |
| **Total equity and liabilities** | | 3,218 | (30) | 3,188 | 6,695 | (62) | 6,633 |

## 38 Effect of changes to the accounting policies on transition to IFRS (continued)

### The effect on equity:

| Amounts in DKKm | Note | ALK-Abelló Group September 1, 2004 | ALK-Abelló Group August 31, 2005 | ALK-Abelló A/S September 1, 2004 | ALK-Abelló A/S August 31, 2005 |
|---|---|---|---|---|---|
| Goodwill is no longer amortized | A | - | 3 | - | - |
| Adjustment of pension obligation regarding unrecognized actuarial gains and losses | C | 1 | - | - | - |
| Minority interests' share of subsidiaries' profits/(losses) and equity | B | 22 | 35 | - | - |
| Measurement of investments in subsidiaries at cost | F | - | - | (30) | (62) |
| Adjustments regarding discontinued operations | E | 17 | - | - | - |
| Effect of adjustments on deferred tax | D | - | - | - | - |
| Total | | 40 | 38 | (30) | (62) |
| | | | | | |
| Distributed as follows: | | | | | |
| Shareholders in ALK-Abelló A/S | | 40 | 38 | | |
| Minority interests | | - | - | | |
| Total | | 40 | 38 | | |

### Effect on earnings per share:

| | ALK-Abelló Group Previous accounting policies | ALK-Abelló Group Adjustments | ALK-Abelló Group IFRS/IAS accounting policies |
|---|---|---|---|
| Earnings per share | 423.4 | 2.0 | 425.4 |
| Diluted earnings per share | 419.5 | 2.0 | 421.5 |
| Earnings per share, continuing operations | (10.6) | - | (10.6) |
| Diluted earnings per share, continuing operations | (10.6) | - | (10.6) |

### The effect on the cash flows for the year 2004/05:

| | ALK-Abelló Group |
|---|---|
| Cash flow from operating activities: | |
| Previous accounting policies | 407 |
| Adjustments, discontinued operations | (232) |
| **IFRS/IAS accounting policies** | 175 |
| | |
| Cash flow from investing activities: | |
| Previous accounting policies | 5,938 |
| Adjustments, discontinued operations | 444 |
| Divestment of business | (6,352) |
| **IFRS/IAS accounting policies** | 30 |
| | |
| Cash flow from financing activities: | |
| Previous accounting policies | (928) |
| Adjustments, discontinued operations | (137) |
| **IFRS/IAS accounting policies** | (1,065) |

# List of companies in the ALK-Abelló Group

**August 31, 2006 (wholly owned unless otherwise stated). Nominel capital in 1,000.**

**Denmark**
ALK-Abelló A/S — DKK 101,284
CVR no 63 71 79 16
Hørsholm

**Sweden**
ALK-Abelló, ALK Sverige AB — SEK 500
Kungsbacka

**Norway**
ALK-Abelló, ALK Sverige AB (branch) — -
Oslo

**Finland** — -
ALK-Abelló A/S (branch)
Helsinki

**United Kingdom**
ALK-Abelló Ltd. — GBP 1
Hungerford

**France**
Allerbio S.A. — EUR 160
Varennes-en-Argonne

**Germany**
ALK-Scherax Arzneimittel GmbH — EUR 1,790
Hamburg

**Austria**
ALK-Abelló GmbH — EUR 73
Linz

**Switzerland**
ALK-Abelló AG — EUR 100
Volketswil

**Netherlands**
ALK-Abelló bv — EUR 23
Nieuwegein

**Spain**
ALK-Abelló S.A. — EUR 4,671
Madrid

**Italy**
ALK-Abelló S.p.A. — EUR 3,680
Milan
Wholly owned by ALK-Abelló S.A.

**USA**
ALK-Abelló, Inc. — USD 6,839
Austin

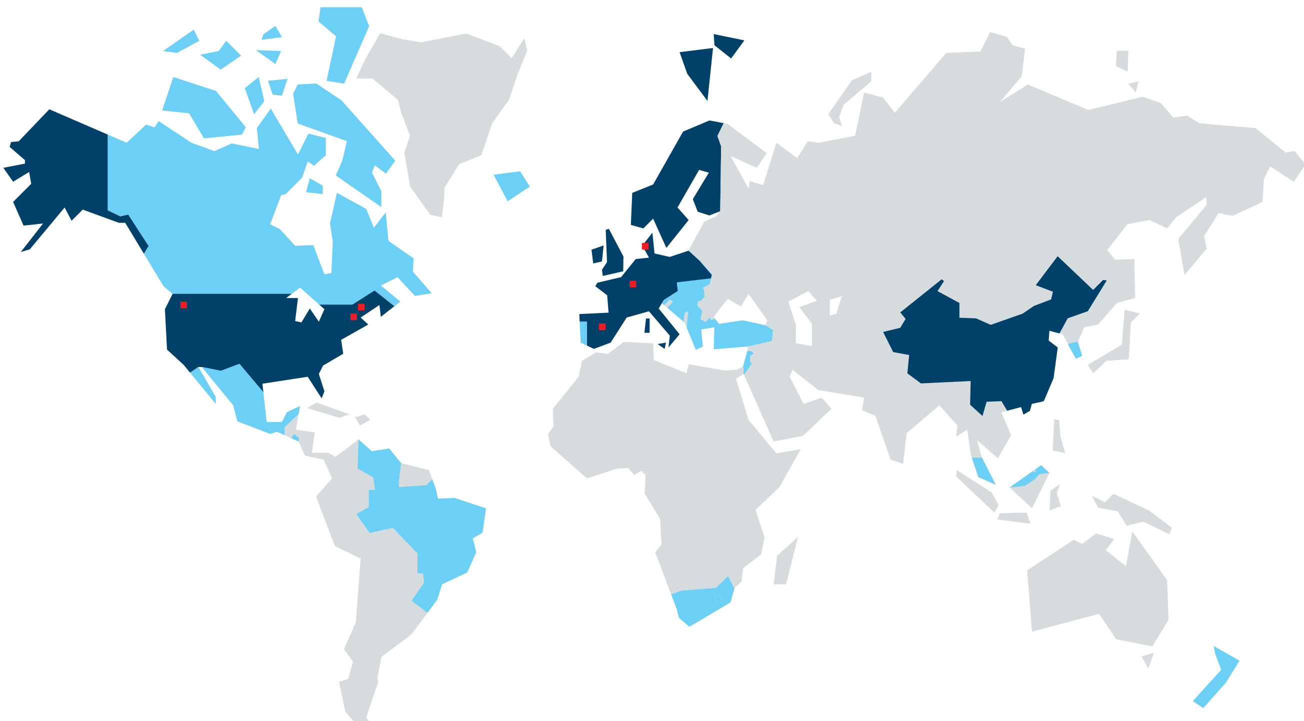
ALK-Abelló, Vespa Laboratories, Inc. — USD 5
Spring Mills

Biopol Laboratory, Inc. — USD 1
Spokane
Wholly owned by ALK-Abelló,
Vespa Laboratories, Inc.

**China** — -
ALK-Abelló A/S (branch)
Hong Kong

# Global presence

- Production
- Distributors
- Subsidiaries in France, the Netherlands, Italy, Switzerland, Spain, Sweden (Nordic), Germany, UK, USA, Austria.
  Sales offices in China, Finland, Norway and Denmark.



## About ALK-Abelló

All around the world, millions of people experience reduced quality of life due to allergy. In Europe and the USA alone, more than 80 million people suffer from grass pollen allergy. ALK-Abelló's allergy vaccines treat not only the symptoms of allergy but also the underlying disease – and at the same time prevent asthma. ALK-Abelló is a fast-growing company working with the very latest technology in research, development and production. The company is the market leader in allergy vaccination in Europe and also commands strong positions in the USA and China. The company has approximately 1,200 employees.

# Definitions

| | |
|---|---|
| **Invested capital** | Intangible assets, property, plant and equipment, inventories and receivables excluding provisions (deferred tax excluded), trade payables, other payables and minorities |
| **EBIT margin – %** | Operating profit x 100/Revenue |
| **Net asset value per share** | Equity at year end/Number of shares at year end |
| **ROAIC – %** | Return on average invested capital (Operating profit x 100/Average invested capital) |
| **Pay-out ratio – %** | Proposed dividend x 100/Net profit/(loss) for the year |
| **Earnings per share (EPS)** | Net profit/(loss) for the year attributable to shareholders of the parent/ Average number of shares |
| **Diluted earnings per share (DEPS)** | Net profit/(loss) for the year attributable to shareholders of the parent/ Average number of shares, diluted |
| **Cash flow per share (CFPS)** | Cash flow from operating activities excluding minority interests' share/ Average number of shares |
| **Price earnings ratio (PE)** | Share price/Earnings per share |
| **Segments** | Geographical segments (based on customers' location):<br>• Northern Europe comprises the Nordic region, the UK and the Netherlands<br>• Central Europe comprises Germany, Austria and Switzerland<br>• Southern Europe comprises Spain, Italy and France<br>• Other markets comprise the USA, China and rest of world |

Key ratios are calculated in accordance with "Recommendations and Ratios 2005" issued by the Danish Society of Financial Analysts.

# Announcements to the Copenhagen Stock Exchange during the 2005/06 financial year

| | | |
|---|---|---|
| 1. | Financial calendar for the 2005/06 financial year for Chr. Hansen Holding A/S (ALK-Abelló A/S) | Sep 20, 2005 |
| 2. | The Chr. Hansen Group: financial highlights from the preliminary financial statements for the year ended August 31, 2005, interim dividend and intra-group merger | Oct 5, 2005 |
| 3. | ALK-Abelló announces positive results from grass tablet study | Oct 18, 2005 |
| 4. | Release date of annual report 2004/05 for the Chr. Hansen Group and meeting of analysts | Nov 7, 2005 |
| 5. | Annual Report 2004/05 | Nov 14, 2005 |
| 6. | Intra-group merger between Chr. Hansen Holding A/S and ALK-Abelló A/S with ALK-Abelló A/S as the continuing company | Nov 14, 2005 |
| 7. | Annual General Meeting in Chr. Hansen Holding A/S on December 13, 2005 | Nov 24, 2005 |
| 8. | ALK-Abelló will acquire Schering's 50% interest in German subsidiary | Dec 13, 2005 |
| 9. | Report on the Annual General Meeting in Chr. Hansen Holding A/S held on December 13, 2005 | Dec 13, 2005 |
| 10. | Chr. Hansen Holding A/S changes name and securities identification code on the Copenhagen Stock Exchange | Dec 21, 2005 |
| 11. | Release date of Q1 interim report 2005/06 for ALK-Abelló | Jan 13, 2006 |
| 12. | Q1 interim report 2005/06 for the three months ended November 30, 2005 | Jan 19, 2006 |
| 13. | Grant of share options to members of the Board of Management and senior managers | Mar 1, 2006 |
| 14. | GRAZAX® approved in Sweden | Mar 14, 2006 |
| 15. | Release date of H1 interim report 2005/06 for ALK-Abelló | Apr 19, 2006 |
| 16. | H1 interim report for the six months ended February 28, 2006 | Apr 24, 2006 |
| 17. | ALK-Abelló starts up clinical development program with ragweed tablet in the USA | May 23, 2006 |
| 18. | Release date of 9 month (Q3) interim report 2005/06 for ALK-Abelló | Jun 29, 2006 |
| 19. | Nine-month interim report (Q3) 2005/06 | Jul 4, 2006 |
| 20. | ALK-Abelló changes its financial year | Aug 23, 2006 |
| 21. | ALK-Abelló grants employee shares | Aug 23, 2006 |

**After the end of the financial year**

| | | |
|---|---|---|
| 1. | Financial calendar for the 2006/07 and 2007 financial year for ALK-Abelló A/S | Sep 21, 2006 |
| 2. | GRAZAX® approved in Europe | Sep 25, 2006 |
| 3. | Release date of annual report 2005/06 for ALK-Abelló and analyst meeting | Nov 10, 2006 |

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