

Pharmaceuticals Industry Survey Results

Survey of 2005 Accounting under IFRS

1. Under IFRS applicable in 2005, survey respondents indicated they classify the specified *income* items as follows:

| Income Items | (1) Product Revenues | (2) Other Revenues | (3) Contra Cost of Goods Sold | (4) Contra Marketing and Sales Expense | (5) Contra R&D Expense | (6) Contra General Expense | (7) Other Operating Income | (8) Other Non- Operating Income | Other (please describe) |
|---|----------------------------|--------------------------|-------------------------------------|---|------------------------------|----------------------------------|-------------------------------------|--|---|
| a) Royalty receipts based on a percentage of individual product sales | | 75.0% | | | | | 25.0% | | |
| b) Other royalty receipts | | 75.0% | | | | | 25.0% | | |
| c) Other royalty or license receipts | | 75.0% | | | | | 25.0% | | |
| d) Receipts for co-marketing activities | | | 6.25% | 31.25% | 6.25% | 25.0% | 6.25% | | 25%: Not applicable - will be decided once such a collaboration occurs. |
| e) Receipts for co-promotion activities | | 25.0% | | 25.0% | | | | 25.0% | 25%: Not applicable - will be decided once such a collaboration occurs. |
| f) Receipts for research or development performed on the behalf of others | | 25.0% | | | 50.0% | | | | 25%: not yet evaluated. |
| g) Contract manufacturing income | 25.0% | 75.0% | | | | | | | |
| h) Sales commissions received | | 50.0% | | | | | 25.0% | | 25%: Immaterial – not yet evaluated. |
| i) Divestment proceeds on sale of marketed products | | 25.0% | | | | | 75.0% | | |
| j) Divestment proceeds on sale of compounds in development | | 25.0% | | | | | 75.0% | | |

Pharmaceuticals Industry Survey Results

Survey of 2005 Accounting under IFRS

2. Under IFRS applicable in 2005, survey respondents indicated they classify the specified *expense* items as follows:

| Expense Items | (1) Contra Product Revenues | (2) Contra Other Revenues | (3) Cost of Goods Sold | (4) Marketing and Sales Expense | (5) R&D Expense | (6) General Expense | (7) Other Operating Expense | (8) Other Non- Operating Expense | Other (please describe) |
|---|--------------------------------------|------------------------------------|------------------------------|---------------------------------------|--------------------|---------------------------|--------------------------------------|---|---|
| a) Amortization of marketed products | | | 25.0% | | | 25.0% | | | 50%: Separate presentation of amortization |
| b) Amortization of compounds acquired in the development stage | | | 25.0% | | 25.0% | | | | 50%: Separate presentation of amortization |
| c) Amortization of early stage compound acquired in the research stage which is now available for use | | | 25.0% | | 25.0% | | | | 50%: Separate presentation of amortization |
| d) Amortization of capitalized milestone payments for development stage compounds | | | 25.0% | | 25.0% | | | | 50%: Separate presentation of amortization |
| e) Amortization of capitalized milestone payments for research stage compounds which is now available for use | | | 25.0% | | 25.0% | | | | 50%: Separate presentation of amortization |
| f) Amortization of capitalized internal development costs | | | 25.0% | | 25.0% | | | | 50%: Separate presentation of amortization |
| g) Royalty payments based on a percentage of product sales | | | 100% | | | | | | |
| h) Other royalty payments | | | 75.0% | | | 12.5% | 12.5% | | COGS if related to manufacturing royalties; otherwise, included in "Other Operating Expense". Income statement classification will depend on the underlying asset. If the payments are linked to product sales, then the costs will go to COGS. If payments related to intellectual property not associated with sales/revenues, or if royalty expense is based on Royalty revenues then the cost goes to General or to the function |

Pharmaceuticals Industry Survey Results

Survey of 2005 Accounting under IFRS

| Expense Items | (1) Contra Product Revenues | (2) Contra Other Revenues | (3) Cost of Goods Sold | (4) Marketing and Sales Expense | (5) R&D Expense | (6) General Expense | (7) Other Operating Expense | (8) Other Non- Operating Expense | Other (please describe) |
|---|--------------------------------------|------------------------------------|------------------------------|---------------------------------------|--------------------|---------------------------|--------------------------------------|---|--|
| i) Other license payments | | 8.3% | 33.3% | 8.3% | 25.0% | 25.0% | | | Income statement classification will depend on the underlying asset. If the payments are linked to product sales, then the costs will go to COGS. If payments related to intellectual property not associated with sales/revenues, or if royalty expense is based on Royalty revenues then the cost goes to General or to the function that is benefiting from the use of the asset. |
| j) Payments for co-marketing activities | | | 8.3% | 70.8% | 8.3% | 12.5% | | | The treatment of co-marketing payments would depend on the terms of the co-marketing agreement. Revenues and expenses are classified according to their substance under the following lines items: share of margin is classified under "Cost of Goods Sold", rebilling of sales force, marketing expenses are recorded under "Marketing and Sales Expense" and "R & D Expense". |
| k) Payments for co-promotion activities | | | | 75.0% | | | | 25% | |
| l) Sales commissions paid | 25.0% | 12.5% | | 62.5% | | | | | Depends on contract terms. |

Pharmaceuticals Industry Survey Results

Survey of 2005 Accounting under IFRS

| Expense Items | (1) Contra Product Revenues | (2) Contra Other Revenues | (3) Cost of Goods Sold | (4) Marketing and Sales Expense | (5) R&D Expense | (6) General Expense | (7) Other Operating Expense | (8) Other Non- Operating Expense | Other (please describe) |
|---|--------------------------------------|------------------------------------|------------------------------|---------------------------------------|--------------------|---------------------------|--------------------------------------|---|--|
| m) Pharmaceutical contribution / governmental rebates linked to product revenues levels | 62.5% | 12.5% | | 12.5% | | | 12.5% | | Pharmaceutical contributions based on a percentage of sales are deducted from Product Revenues whereas pharmaceutical contributions not based on a percentage of sales are included in Marketing and Sales Expenses. Product price reductions treated as "Contra-revenues" while contributions are treated as "Other Operating Expense". |
| n) Impairment of goodwill | | | | | | 25.0% | 25.0% | 25.0% | 25%: Classification in a specific line impairment. |
| o) Patent registration costs | | | | | 75.0% | 25.0% | | | |
| p) Patent defense costs | | | | | | 62.5% | 37.5% | | The treatment of patent defense costs would depend on the nature of the costs. |
| q) Bad debt expense | | | | 75.0% | | 25.0% | | | |
| r) Sample expenses | | | | 87.5% | 12.5% | | | | Depending on the nature of the samples |
| s) Warehousing expenses for finished goods | | | 62.5% | 37.5% | | | | | Treatment depends upon the circumstances. |
| t) Warehousing expenses for sample products | | | 62.5% | 37.5% | | | | | Treatment depends upon the circumstances. |
| u) Transportation and transit insurance expenses | | | 62.5% | 37.5% | | | | | Treatment depends upon the circumstances. |

Pharmaceuticals Industry Survey Results

Survey of 2005 Accounting under IFRS

| Expense Items | (1) Contra Product Revenues | (2) Contra Other Revenues | (3) Cost of Goods Sold | (4) Marketing and Sales Expense | (5) R&D Expense | (6) General Expense | (7) Other Operating Expense | (8) Other Non- Operating Expense | Other (please describe) |
|---|--------------------------------------|------------------------------------|------------------------------|---------------------------------------|--------------------|---------------------------|--------------------------------------|---|----------------------------|
| v) Divestment losses on sale of marketed products | | 25.0% | | | | | 75.0% | | |
| w) Divestment losses on sale of products in development | | 25.0% | | | 25.0% | | 50.0% | | |
| x) Write-down of non-approved inventories | | | 87.5% | | 12.5% | | | | |
| y) Phase IV development costs | | | | 25.0% | 50.0% | 25.0% | | | |
| z) Phase IV marketing costs | | | | 50.0% | 25.0% | 25.0% | | | |
| aa) Taxes on promotion expenditures | | | | 50.0% | | 25.0% | 25.0% | | |
| bb) Rebates, Returns and discounts on sales | 100% | | | | | | | | |
| cc) Litigation costs for current marketed products | | | | | | 50.0% | 50.0% | | |
| dd) Litigation costs for products no longer marketed | | | | | | 25.0% | 75.0% | | |

3. Under IFRS applicable in 2005, survey respondents have defined cash generating units for goodwill impairment testing as follows:

25.0% Segment level

50.0% One level below segment level, which is

25.0% Geographic

25.0% Lowest cash generating unit level at which management information is reviewed

- Therapeutic

25.0% Acquired local entity level

Remarks

(1) Product Revenues include:

- Fair value for the sale of goods or services, net of value-added tax, rebates and discounts
- Gross inflow of economic benefits arising in the course of the ordinary activities of an enterprise

(2) Other Revenues includes:

- Fair value for the rendering of goods or services or other economic benefits arising in the course of the ordinary activities but not the entity's primary source of such benefits, including royalties, interest or dividends

(3) Cost of goods sold includes:

- All costs directly attributable to the sale of goods, materials, and services, e.g. material costs, direct costs incurred in the purchasing process and warehousing, net of purchase returns, discounts, and other allowances
- Other costs associated with production including direct labour and related costs and manufacturing overhead supplies
- Losses from writing inventories down to market value and amortization of preproduction and tooling costs
- Offset by sales of by-products and the disposal value of scrap
- Potentially also includes non-production overheads, cost of designing products for specific customers and royalties

(4) Marketing and Sales Expenses include:

Costs for marketing inventories :

- Advertising
- Sales force
- Promotional materials

(5) Research and Development Expenses include:

- Research is planned search or critical investigation aimed at discovery of new knowledge with the hope that such knowledge will be useful in developing a new product or service or a new process or technique or in bringing about a significant improvement to an existing product or process
- Development is the translation of research findings or other knowledge into a plan or design for a new product or process or for a significant improvement to an existing product or process whether intended for sale or use. It includes the conceptual formulation, design, and testing of product alternatives, construction of prototypes, and operation of pilot plants. It does not include routine or periodic alterations to existing products, production lines, manufacturing processes, and other on-going operations even though those alterations may represent improvements and it does not include market research or market testing activities

(6) General Expenses include:

Administrative expenses not allocated to production, purchasing, marketing and research and development, e.g.:

- Financial accounting department
- Controlling department
- Human resource department

(7) Other Operating Expenses include:

- Expenses of a miscellaneous nature which are not covered by any other expense account, e.g. loss on insured damaged goods, membership fees and donations

(8) Non-Operating Expenses include:

- Expenses not resulting from the ordinary cause of business, e.g. expenses relating to other periods, compensation payments, and disaster costs

