

**DOING
BUSINESS
IN**

DENMARK



HLB Mortensen & Beierholm

Statsautoriseret Revisionsaktieselskab

*doing business
in Denmark*

foreword

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general information

The Kingdom of Denmark comprises Denmark, Greenland and the Faroe Islands.

Denmark is located in the northern part of Europe, and covers an area of 43,094 sq.km - excluding Greenland and the Faroe Islands.

The climate is characterised by cool summers with average temperatures of 16°C and mild winters recording average temperatures of 0.5°C. This climate being the result of the country's position on the edge of the European Continent close to major sea areas.

The population of Denmark is about 5.4 million people.

Denmark is a constitutional monarchy. The main political function of the Queen is to appoint a Prime Minister, who leads the Danish government. The Danish Parliament, which holds legislative power, has 179 members. General elections to the Danish Parliament are due every 4 years.

It should be noted that Greenland and the Faroe Islands have their own systems of government, law and taxation, which are not covered in this booklet.

Danish jurisprudence operates on the basis of a division into public law and civil law. The borderline is not easy to define, and the basis for this division is much debated. Civil law regulates reciprocal relations between citizens and between natural persons and legal persons, e.g. companies and institutions.

The citizens' liberty of action can only be restrained by law or by legal precedent, i.e. on the basis of an Act.

The Constitution determines the conditions under which Acts are valid. After being passed by the Folketing and having received the Royal Assent, Acts must be published in the official journal *Lovtidende*. They come into effect one week after publication if no other date is specifically fixed in the Act concerned.

Many Acts are given the form of framework laws containing general guidelines and leaving it to the minister concerned to provide more precise regulations.

An Act is amended or repealed by a new Act being passed.

From ancient times the contents of the law have been determined by the courts by means of case law in areas where there is no legislation, and this still occurs, for instance especially in the law of compensation. In other legal systems, especially in countries with legal systems inspired by Anglo-Saxon law, common law, the courts have, however, a far greater law-creating function than in Denmark.

Customary laws are also sources of law. A legal custom arises when a specific manner of behaviour has been followed generally, constantly and over a long period of time, because the persons concerned were convinced that they were legally obliged to do so.

Danish is the official language, but people engaged in business normally speak other languages. English is the language which is most used, but German and French are also widely spoken.

The Danish currency is called kroner (DKK); each krone is 100 øre.

Denmark is a member of the European Community (EU). The EU has a centralised system of administration with legislative, executive and judicial functions.

In addition, Denmark has close economic, political and cultural ties to the other Nordic countries (Finland, Iceland, Norway and Sweden).

Danish society, including the private sector industry and professions as well as the public sector, is well regulated, yet open and efficient, without unnecessary levels of bureaucracy.

As a member of both OECD and WTO Denmark is actively working towards the removal of obstacles to free international trade of goods and services.

The economy of Denmark is open and very dependent on foreign trade with imports and exports amounting to approximately 26% and 31%, respectively of total GNP (2003). Approximately two thirds of foreign trade is with other EU-member countries. Germany is the largest trading partner accounting for more than 23% of imports and 18.5% of exports. Sweden and the United Kingdom are the second and third largest trading partners.

investor factors

The main business attractions of Denmark are a stable and prosperous society heavily engaged in international trading, a well educated population and work force, very limited social security charges payable by the employer, flexible employment regulations, a generally positive attitude towards private sector industry and professions, a very efficient infrastructure including extensive use of information technology and the rule of law being administered consistently and without excessive bureaucracy.

When establishing a business in Denmark the procedure is the same for residents as for foreign investors.

GOVERNMENT INCENTIVES

There are almost no direct subsidies to individual business in Denmark.

However, in order to even out regional disparities in industrial and demographic development financial grants are made to enterprises in five regional development areas, including the islands of Lolland-Falster and North Jutland.

Grants are made primarily to small and medium sized enterprises undertaking new or expanding existing grant qualifying activities within these geographic areas.

Within certain industries or business sectors grants are made available for product development and research. Favourable loans or guarantees for commercial bank loans may also be obtained from Vækstfonden for research into and development of new or improved products, production methods or services or business concepts including the creation of international competence and expertise.

OTHER INCENTIVES

Financial assistance from EU

The Danish membership of EU makes certain grants and subsidised loans available from EU agencies.

Nordic Investment Bank

Corporate investments in plants and machinery within manufacturing industry and within the trade and service sector, cross-border investments, investments within the energy sector, infrastructure projects, research and development, and foreign investment in the Nordic and Baltic member states may be financed through the Nordic Investment Bank. Furthermore, the Nordic Investment Bank finances joint projects in developing countries.

The Investment Fund for Central and Eastern Europe (IØ Fonden)

Green-field projects, expansion of existing projects and privatisation of state-owned enterprises in Central and Eastern Europe may be partly financed through equity capital and/or loans from the Investment Fund for Central and Eastern Europe (IØ Fonden), provided the project in part is being financed by a Danish business partner as well. Once the project is established, IØ takes a seat on the board of directors. Co-financing is no longer available for projects in countries which are members of EU. The project must be evaluated as commercially viable to qualify for financing.

The Industrialisation Fund for Developing Countries (IFU Fonden)

Green-field projects, expansion of existing projects and privatisation of state-owned enterprises in developing countries being

on OECD's DAC list of development aid recipients, and with a per capita income not exceeding USD 5,115 (2004) may be eligible for partly financing from the Industrialisation Fund for Developing Countries (IFU Fonden). The part-financing comprises equity capital and/or loans. The project has to be financed in part by a Danish business partner and be considered commercially viable to qualify for financing from IFU. Once the project is established, IFU takes a seat on the board of directors.

Danish International Register of Shipping (DIS) Commercial shipping vessels owned by owners resident in Denmark, another EU-country, Iceland, Norway or Lichtenstein may elect to register the vessel with the Danish International Register of Shipping (DIS), provided the vessel's gross register tonnage exceeds 20 tonnes and the vessel is not used for transport of passengers between Danish harbours. Commercial shipping vessels owned by foreign owners electing to register the vessel with DIS must be operated, controlled and managed from Denmark.

Seamen working on a vessel registered with DIS enjoy a favourable Danish tax treatment basically exempting income from such work from Danish taxation, the aim being to allow international payroll competitiveness for the operation of the DIS registered vessels.

SOURCES OF FINANCE

When setting up a business in Denmark finance can be raised from the following sources:

Banks

Finance through banks can be provided as a line of credit or an overdraft, a term loan, a foreign exchange loan or a combination of these.

A line of credit or overdraft is intended to finance working capital. It is therefore used as a working account with cheques and electronic transfers being drawn on the account. Interest is at a variable rate and is calculated on the basis of the use of the overdraft facility, while any quarterly commission payable is usually calculated on the maximum of the overdraft. A fee may be charged to establish or renew the loan.

Term loans are usually for a long period, for example 5 or 10 years. Capital and interest are repaid over the period of the loan, and the interest rate is normally variable. Security is often required in the form of a charge over the assets of the business or guarantees by the owners or directors.

Foreign exchange loans are usually obtainable at the foreign market interest rate plus a margin. The loan is repaid by instalments or in full at the end of the loan period.

Debt factoring

Debt factoring is a method of obtaining payment of debtor balances when invoiced rather than waiting for payment. It is a useful method of obtaining finance for working capital requirements although it can be expensive.

Leasing of equipment

If a business needs additional finance, leasing would be a good source of finance when assets are required. The lessee never owns the leased asset; payments are made for the use of the asset but the lease agreement may be structured either as an operating or a financial lease arrangement; the respective asset type permitting the lease format preferred by the lessee.

Hire purchase

Hire purchase is a form of extended credit. It is used for purchasing of fixed assets such as equipment and motor vehicles and the agreement normally runs over a period of 3-7 years. When capital and interest have been fully paid full title to the asset passes to the acquirer.

The Mortgage Credit System

The Danish mortgage credit system is efficient and used extensively for long term financing. The system is based on bonds, which are traded publicly. This results in interest rates being very competitive, with the possibility of interest rates being fixed annually, or for a period ranging from 2 to 30 years.

Loans on any kind of real property may be raised under the mortgage credit system. Industrial property can typically be mortgaged for up to 60% of the market value and with the term of the loan extending to 20 years.

Stock Exchange

Financing through the Copenhagen Stock Exchange is in practice only possible for existing companies with an established record and a substantial market value. It also requires publication of detailed commercial and financial information about the company and the future prospects for the company. The same applies to listing on other Danish authorised markets such as Dansk Autoriseret Markedsplads, although disclosure requirements on such markets are less onerous than on the Copenhagen Stock Exchange or other main markets.

Venture capital

Venture capital is used for financing for example business expansions and company takeovers. In practice this kind of financing is only available for existing companies or enterprises under formation with a well documented business concept or model.

OTHER INVESTMENT FACTORS

Foreign Exchange Controls

There are no foreign exchange controls, but major transactions in a foreign currency must be reported to the Danish National Bank for statistical purposes. A foreign investor can repatriate capital, loans and income with no restrictions. Denmark is a member of The European

Monetary System established within the EU. Denmark did not join the European monetary standard, EURO, on January 1, 1999. However, the Danish Kroner is kept stable vis-à-vis the EURO. Denmark participates in the formal framework for the fixed exchange rate policy, the European Exchange Rate Mechanism, ERM II, at a central rate of DKK 746.038 per 100 EURO and a fluctuation band of +/- 2.25 per cent. In recent years the Danish National Bank has maintained the Danish Kroner rate closer to the central rate. It is expected that the country will convert to the EURO at a later stage.

Accounts and loans denominated in all major currencies, including the EURO, may be kept with Danish or foreign commercial banks and other financial institutions.

Employment regulations

Citizens from Iceland, Norway, and Lichtenstein and from EU-countries have free access to jobs in Denmark. However, employees from Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, the Czech Republic and Hungary are covered by a transitional scheme ensuring gradual transition to total mobility. Employees from these 8 countries may obtain work permits in Denmark if they gain full time employment on conditions provided by collective agreement or other conditions in accordance with normal contractual labour terms. The employer must be registered with the Danish Tax Authorities as obliged to withhold payroll tax etc. according to the PAYE-tax Act.

Other foreign nationals - including those employed by foreign companies - must apply for residence and work permits to a Danish mission in the applicant's country of origin or the country where the applicant has lived for the last 3 months prior to submitting the application.

Foreigners with special qualifications, obtaining employment in areas with a shortage of Danish labour, have easier access to residence and work permits in Denmark.

types of business organisations

The principal forms of business structures are:

- Public limited company (Aktieselskab or A/S)
- Private limited company (Anpartsselskab or ApS)
- Branch office
- General partnership (Interessentskab or I/S)
- Limited partnership (Kommanditselskab or K/S)
- Sole proprietor

Public Limited Company (Aktieselskab or A/S)

The minimum capital of a public limited company is DKK 500,000. The capital may be paid for in forms other than cash, including fixed assets, goodwill, know-how etc.

When establishing a public limited company one or more promoters must sign a memorandum of association containing a proposal for articles of association and the subscription of share capital. The promoters need not subscribe for any shares in the company.

The adoption of the articles of association takes place at a following statutory general meeting, which is also charged with the election of a Board of Directors and appointment of an auditor.

The management is vested in a Board of Directors consisting of not less than 3 members. The Board of Directors must

appoint the general management consisting of one or more members who will be responsible for the day to day running of the company. The majority of the Board must be non-executive directors.

If a company has employed an average of 35 or more persons during the past three years, its employees are entitled to elect from among themselves members to the Board of Directors. The number of members elected by employees is equivalent to half the number elected to the Board by the shareholders at the Annual General Meeting, but not less than two.

A public limited company must be registered with the Commerce and Companies Agency. There are no fees for the registration, but a foreign company will have to pay for local professional advice and assistance.

A limited company, both public and private, may also be purchased 'off the shelf'. Such companies are already registered, but have had no prior business activities.

Private Limited Company (Anpartsselskab or ApS)

The minimum capital of a private limited company is DKK 125,000. (There is no maximum limit).

A private limited company need have only one founder. Although the private limited company is intended to appeal to one or just a few persons combining to set up a company, no maximum has been fixed for the number of members allowed.

A private limited company is managed by executive directors or by a Board of Directors or by both a Board of Directors and one or more executive directors. If the employees have a right to be represented on the Board of Directors the company must have a Board of Directors.

The employees' right to be represented on the Board of Directors is the same as for public limited companies, cf. above.

Private limited companies must be registered with the Commerce and Companies Agency in the same way as public limited companies.

Branch office

A foreign joint stock company, which is lawfully registered in its home country, may carry on business activities in Denmark through a registered branch office.

The establishment of a branch office must be notified to the Commerce and Companies Agency.

One or more branch managers who can sign for the branch and grant powers of attorney must manage the branch. The cost of establishing a branch office will be payment for local professional advice and assistance.

General Partnership (Interessentskab or I/S)

The nature of a general partnership must be indicated by the inclusion of the initials I/S in its name.

General partners are jointly and severally liable for the obligations of the partnership. However, an investor can minimise his risk by participating in a partnership by the intermediary of a limited company.

A partnership agreement is commonly

prepared to govern the relationship between partners as no Partnership Act exists in Denmark. When all partners are entities with limited liability the partnership must register with the Commerce and Companies Agency.

Limited Partnership (Kommanditselskab or K/S)

A limited partnership consists of one or more general partners and one or more limited partners.

Any of the general or limited partners may be individuals or legal entities, foreign or domestic.

The firm name must indicate that it is a limited partnership by including in the name the initials K/S. The names of the limited partners may not appear in the firm name.

When the sole or all general partners are entities with limited liability, a limited partnership must register with the Commerce and Companies Agency.

Sole Proprietor

A sole proprietor is an individual engaged in a business or profession on his own account. Any individual is free to establish a business in Denmark.

Registration with the tax authorities must be made if the sole proprietor is engaged in an enterprise employing staff or performing a trade or any other activity subject to VAT.

Any trading name may be selected unless this is already being used by another enterprise; the owner's name may, but need not, appear in the firm's name. The conduct of certain professions requires particular authorisation and/or qualifications.

Legal, Accounting and Audit Requirements

Public limited companies, private limited companies, branch offices and individuals engaging in business operations must file with the tax authorities a balance sheet and a profit and loss statement together with their annual tax return.

For public limited companies, private limited companies and limited partnerships required to register with the Commerce and Companies Agency, the financial statements have to be prepared in accordance with the Annual Accounts Act. The accounting principles to be applied under the Danish Annual Accounts Act generally correspond with the requirements prescribed in the International Accounting Standards (IAS/IFRS). The annual accounts must give a true and fair view of the company's assets and liabilities, its financial position and its profits.

Danish companies with subsidiaries - Danish or foreign - are required to prepare financial statements for the parent company and consolidated accounts for the group. Small parent companies, however, are not required to prepare consolidated accounts.

As soon as the annual accounts have been approved by the company's shareholders at the ordinary annual general meeting and not more than 5 months after the close of the accounting year, a company must send an attested copy of its audited annual accounts to the Commerce and Companies Agency.

Company accounts including the annual accounts of registered limited partnership are open for public inspection in the Commerce and Companies Agency.

Branches of foreign companies must file with the Commerce and Companies Agency a certified copy of the head-office

company's annual accounts accompanied by a report by the company's auditors.

A state authorised public accountant or a registered public accountant must audit the accounts of public limited companies and private limited companies.

The accounts of partnerships and sole proprietors need not to be audited. The annual financial statements of such enterprises, with the exception of limited partnerships required to register with the Commerce and Companies Agency, are used only for the tax return and specific other recipients agreed to by the partners or proprietors. Such accounts are not publicly disclosed.

taxation

INCOME AND WEALTH TAX

General

Resident companies and individuals are taxed on their worldwide income. No wealth tax is levied in Denmark.

An extensive network of double taxation agreements grants relief from international double taxation either by exempting foreign income from Danish tax or by allowing taxes paid abroad as a set off (credit) against Danish taxes. Alternatively unilateral relief is granted through a general foreign tax credit provision.

Non-residents are liable to tax on income from a permanent establishment and from immovable property in Denmark. Furthermore, they are liable to income tax on wages and salaries for work performed in Denmark, including situations of hiring-out of labour, cf. below, fees for serving on the Board of Directors of Danish companies and certain pensions.

Dividends from a Danish company are in principle always taxable in Denmark and the tax is deducted from the dividend when paid by the company, see 'Withholding taxes' below.

An individual is deemed to be resident when he or she has lived in Denmark for six months and is taxed on his or her worldwide income retro-actively as from the date of his or her arrival. There are special rules for foreign experts, researchers etc, see 'Tax relief for foreign experts'.

Companies and individuals can carry forward tax losses indefinitely. No general loss carry back is available.

Corporate taxation

Companies and branches of foreign companies are taxed at a flat rate of 30%. The government has proposed to reduce the tax rate to 28% with effect from 2005. Taxable income comprises gross income less the cost of earning, securing and maintaining the gross income.

If a Danish company has income from a permanent establishment abroad or from certain other activities abroad, a relief according to international double taxation agreements is granted by means of the exemption or the tax credit method or in accordance with internal Danish rules.

A Danish parent company can choose to be taxed jointly with its wholly-owned subsidiaries by consolidating the earnings of the individual companies. This also applies to non-resident subsidiaries, in which the Danish parent company owns as much of the share capital as is permitted by the law of the country of which the subsidiary is a resident.

Furthermore, consolidating the earnings of Danish fellow subsidiary companies and their respective foreign and domestic subsidiary companies, and opting to be taxed jointly, is also possible provided the Danish fellow subsidiary companies are wholly owned subsidiary companies of a Danish or foreign parent company domiciled in another EU-country, Iceland, Norway, Lichtenstein or another country with whom Denmark has entered into a double taxation agreement. Danish branch offices or permanent establishments of the foreign parent company may be included in the consolidation of earnings subject to Danish corporate income tax.

The fiscal year for companies runs from April 1 to March 31. The basis for assessment is the company's own financial year ending within the preceding tax year. The tax return must be filed within 6 months of the end of the financial year. For companies with a financial year ending January 1 - March 31 the tax return must be filed by June 30.

Taxes have to be paid on a current year basis with half payable on March 20 and the remainder on November 20. The assessed payments on account will be calculated on a basis of the income of the three prior years. In addition companies can make extra voluntary payments on March 20 and November 20. Final settlement will be payable or refunded by November 20 of the following tax year.

Certain companies established before January 29, 1992 may continue to pay taxes under a former system with payment deferred until November 20 of the following tax year.

However, in such cases a surcharge of 5.4 % will be added to offset the advantage of the deferred tax payment leaving a total effective tax rate of 31.62% (2005) or 29.51% (2005) provided the tax rate is reduced to 28%.

Tonnage Tax

A tonnage tax system was introduced in Denmark in 2002. The regime applies as an alternative to the normal corporate income tax regime for shipping companies resident in Denmark and for Danish permanent establishment of shipping companies in other EU-countries. Conditions for qualification for the tonnage tax regime include that the shipping company operates vessels for the purpose of passengers or goods using vessels that are either owned by the shipping company or operated on a bareboat or a time charter basis and

strategically operated from Denmark. Capital gains on the sale of vessels operated under the tonnage tax regime are included in the taxable income, as well as income from certain activities closely connected with the operation of the vessels.

Under the tonnage tax regime, taxable income is computed by multiplying a deemed income per 100 tonnes of net tonnage by the number of days a vessel is controlled by the shipping company, regardless of whether or not the ship is in actual operation. The deemed income per 100 tonnes per day ranges from DKK 2 to 7, depending on the total tonnage operated. No deductions, including depreciation of the vessels, are permitted. The taxable income computed as per the before mentioned principles is subject to corporate income tax at the ordinary rate of 30%, cf. above.

Personal taxation

Individual income tax is levied on a current year basis by the State and by local authorities. For most individuals the fiscal year is the calendar year. The State income tax is progressive. Local income taxes are levied at flat rates, which vary according to municipality.

Personal income

Personal income comprises salaries, wages, pension, income from independent business activities etc. From this income, however, excluding pension and other passive type income, a social security contribution of 8% and a compulsory pension contribution of 1% are paid. The compulsory pension contribution of 1% has been temporarily suspended for the years 2004 and 2005, and is expected to be suspended for the following years as well. On the net income after social security and pension contributions the tax amounts to 38% - 59% in 2005.

Each taxable person is entitled to a personal allowance which is computed as a personal tax credit to be set off against his tax liability. For state income tax purposes the tax credit is 5.5% of the amount of the personal allowance. For municipal and county income tax purposes the tax credit equals the respective local tax rate percentages of the amount of the personal allowance. For 2005 the personal allowance is DKK 37,600 and consequently, the total tax credit is approximately DKK 14,300. The tax credit does not apply to the 28% tax on dividends, cf. below, and to a number of situations in which the individual is subject to taxation on Danish source income without being resident in Denmark.

Individuals seconded to Denmark for a temporary period of time who continues to be covered by the social security system of their home country are exempt from the social security contribution of 8% and the compulsory pension contribution of 1% provided this either follows from the provisions of EEC-Regulation 1408/71 on the application of social security schemes to employed persons and their families moving within the community, or from other social security conventions entered into between Denmark and the home country of the respective individual.

Capital income

Capital income comprises interest income and charges, income from passive business investments, certain dividends from foreign companies, certain allowances and deductions, and other capital income or losses. The tax rate on net capital income is the same as for personal income. The tax credit given for net capital losses against other income is at a rate of 32% in 2005.

Dividends

Dividends from Danish companies up to an amount of DKK 43,300 (2005) per year are taxed at a flat rate of 28% deducted at source. Dividends exceeding this amount

are taxed at 43% with the remaining 15% being collected directly from the individual. Dividends from foreign companies are taxed in the same manner as from Danish companies. However, dividends from foreign companies engaged in financial activities of a significant extent, and having been subject to a taxation levied at substantially lower tax rates than current Danish corporate income taxation is capital income.

Tax relief for foreign experts

Under certain conditions foreign experts, public sector researchers etc. can be taxed at a final flat rate of 25% of the gross salary received including any relocation compensation.

The conditions are:

- The person must be temporarily living in Denmark for a minimum of 6 and a maximum of 36 months. By the end of the 36 months period an existing contract can be extended with a maximum of 48 months. Taxation during the period of extension of the contract is imposed in accordance with the usual Danish tax rules, i.e. not the 25% flat rate.
- Researchers would need an approval from a research council or a university.
- For other experts etc. the annual gross pay must be at least DKK 687,600 (2005).
- The tax relief may be used for more than one temporary period in Denmark provided the total of such periods does not exceed 36 months within 10 years of the first temporary employment contract.
- If the expert stays in Denmark for more than 48 months after the 36 months of 25% taxation, and he or she has been subject to Danish taxation within a period of 5 years prior to the commencement of the first period of 25% taxation, additional taxation will be payable for the whole period.

International Hiring-out of Labour

An employee having residence in another country than Denmark, who is hired by his foreign employer to work for a Danish enterprise, is subject to a limited tax liability in Denmark. The international hiring-out of labour tax is 30% of the gross remuneration less compulsory contributions to social security and pension, as per above described principles.

The income tax, social security and pension contributions must be withheld by the Danish enterprise being the user of the labour.

CAPITAL GAINS

For individuals, capital gains are normally taxed as capital income. For corporations capital gains form part of the ordinary taxable income.

Real property

Gains from the disposal of real property (other than the recovery of past depreciation) are taxed as capital income unless the taxpayer has previously opted for the use of a special enterprise taxation scheme. The capital gain is computed on a cash basis by deducting cost from the sales price.

If the sale takes place within the first three years of ownership the whole gain is taxed. After three years of ownership certain allowances may be obtained with a maximum reduction of the taxable gain by 9% (2005), provided the property was acquired prior to 1 January 1999.

Gains representing the recovery of past depreciation are always taxable. For companies the full gain forms part of the taxable income. For individuals only 90% of the gain is taxed. Special rules apply to houses used for private living and for a business engaged in real property trading.

Machinery, equipment etc.

Capital gains from the disposal of equipment in connection with cessation of a business are taxable.

For companies the full gain forms part of ordinary taxable income. For individuals 90% of the gain is taxed as personal income.

In other cases the sales proceeds are deducted from the total depreciable balance at the beginning of the year thus reducing total depreciation for the current and future years.

Shares held by Companies

Gains from the disposal of shares held as portfolio investment are taxable, if the period of ownership is less than three years. Losses on the disposal of shares can be deducted from similar gains on shares within the current and any following year.

Gains from the disposal of portfolio investment shares held for more than three years are not taxable, nor are losses deductible.

Shares held by Individuals

Gains from the disposal of shares held as portfolio investment are taxable if the period of ownership is less than three years. The gain is taxed as capital income.

For shares held for more than three years, there is a distinction between public quoted shares and unquoted shares.

Gains from disposal of unquoted shares are taxed at a rate of 28-43% and losses are deductible.

For public quoted shares owned for more than three years and with a total market value of the individual's total portfolio not exceeding DKK 136,600 (2005), capital

gains are not taxable and losses are not deductible. If the market value of the portfolio is more than DKK 136,600 gains are taxable at a rate of 28-43% and losses can be deducted from other similar gains within the current and any following year.

DEPRECIATION

Depreciation deducted for tax purposes need not conform to that provided in the financial statements. The method of depreciation for tax purposes depends on the asset group.

Machinery

All plant, machinery, automobiles etc. are pooled and depreciation is calculated collectively applying the reducing balance method. The depreciation basis is the written down value of all assets in the pool at the beginning of the year plus the cost price of items purchased during the year, minus the sales proceeds of items sold during the year. Acquisitions and disposals must be accounted for at their cash value.

Annual depreciation may be up to 25% of the balance.

Assets individually costing less than DKK 11,000 (2005) or with an expected life of less than 3 years and all EDP software may be written off in full in the year of acquisition.

Buildings

For depreciation of buildings the straight line method is used.

The basis for depreciation is the cash price paid for the building. The annual depreciation rate may be up to 5%.

Land, office buildings and certain other types of buildings are not depreciable for tax purposes.

Intangible assets

For intangible assets, including goodwill, the straight line method is used. The depreciation period depends on the assets. Goodwill acquired after May 19, 1993 is amortizable over a period of 7 years. (Goodwill acquired before this date is not depreciable for tax purposes).

Leasehold improvements are depreciated over the lease period (minimum 5 years).

WITHHOLDING TAXES

Dividends

Withholding tax at a rate of 28% has to be deducted from dividends paid by Danish limited companies. The tax rate will often be reduced or the tax eliminated under the terms of a double taxation agreement. Denmark has adopted the EU parent subsidiary directive granting EU based parent and subsidiary limited companies relief from dividend withholding taxes. The same relief from Danish dividend withholding taxes applies to foreign holding companies of other jurisdictions as well, provided they hold 20% or more of the share capital of the Danish limited company, and a double taxation agreement does exist between Denmark and the country in which the dividend receiving holding company is resident. The foreign holding company, both in the case of being EU or based in another jurisdiction must own the shares in the Danish subsidiary company for a period of at least 12 months, during which period the dividend distribution occurs to be eligible for the exemption from Danish dividend taxation.

The dividend withholding tax rate is 19.8% for dividends paid to a Danish limited company owning less than 20% of the share capital in the dividend paying Danish company.

For a Danish parent company the dividend from a Danish or foreign subsidiary is exempt from Danish tax, if the company owns 20% or more of the capital in the subsidiary.

The minimum ownership percentage of 20% to qualify for the tax exemption on dividends received by the Danish or foreign parent company will be reduced to 15% as from 1 January 2007 and to 10% as from 1 January 2009.

Royalties

Withholding tax at a rate of 30% must be deducted from most royalties paid to residents of foreign countries.

For royalties paid to countries with which Denmark has entered into a Double Taxation Agreement the withholding tax rate is often lower than the normal rate or zero.

VALUE ADDED TAX

The value added tax rate is 25%. VAT is added to virtually all taxable deliveries of goods and services including imports. VAT is charged on imports from other EU and non-EU countries applying the reverse charge method provided the Danish importer is already registered for VAT and as an importer with the Danish Customs Authorities.

VAT charged on sales to customers is paid over to the tax authorities less VAT suffered on purchases from suppliers. Exports are exempt from value added tax. Many goods are also subject to a special duty, including for example automobiles, petrol, wine and tobacco, certain packaging materials and soft drinks.

OTHER TAXES

Hydrocarbon tax (A special oil and gas tax)

Enterprises engaged in oil exploration, extraction, transportation and related activities in Denmark, in Danish territorial waters and on the Danish continental shelf are subject to a special system of taxation.

Real estate taxes

Real estate taxes are levied on most real estate based on a public assessment of the value of the property. Although the assessments cover both land and building it is basically the land component, which is taxed. However, in certain major cities, including Copenhagen, commercial property building tax is not insignificant. The tax rate varies in each locality.

Inheritance tax

The estate of a deceased person pays tax. Tax is 15% when the successor is closely related to the deceased. If the relationship is not close, there is an extra tax of 25%, giving an effective total tax rate of 36.25%. Tax is paid on the net value of estates exceeding DKK 236,900 (2005).

Registration duties

Registration duties are imposed on certain transactions principally involving the purchase or exchange of ownership to land and real estate, mortgage loan, contracts secured through a pledge on land and real estate and the registration of other encumbrances etc. on land and real estate property.

There are no capital transfer duties on the injection of equity capital into a Danish limited company, nor are there any transfer duties applicable to the transfer of shares, bonds or mortgage letters.

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