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3 July 2009

Dear Madam/Sir

Comments on Exposure Draft ED/2009/2 Income Tax

Novo Nordisk A/S is pleased to provide its comments to the IASB's Exposure Draft ED/2009/2 *Income Tax* from 31 March 2009 (referred to as the "ED").

We agree that the Board should address significant practical as well as conceptual issues that arise under IAS 12 *Income Taxes* and achieve convergence with US GAAP as long as it is still principles based, higher quality than present IFRS accounting and in line with the principles of writing IFRS literature. We do not believe that the IASB fully has achieved that in the ED.

Especially, we disagree with the new proposed measurement and disclosure requirements for uncertain tax positions. We continue to support the current rule of "more likely than not" (i.e. >50%), and find the new rule of "likely, then use weighted average" highly theoretical, hypothetical and virtually impossible to ensure global consistency around. As we understand the new rule, it may result in additional tax provisions for tax cases/potential tax risks, which will have to be set up, when the consequences are likely, but less than 50% probable. We find that the model proposed in the ED is not robust enough, nor does it take into account the fact that many tax rules are discrete (i.e. "either or" situations, where judgment is applied based on "more likely than not" by the tax departments of reporting entities). We find that the method used under the existing IAS 12 gives a more realistic measurement of the tax risks inside a group, it's has been applied consistently globally for a number of years, we believe. Therefore we also believe that it is more useful to investors in predicting future cash flows related to income tax.

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We will recommend that uncertainty in the measurement of income taxes to be determined using an 'expected' model that determines the single most likely outcome that is 'more likely than not' of being sustained.

The following examples illustrate how this approach would be applied:

- in a simple tax uncertainty where, for example, a particular deduction will be either sustained or not, this approach would result in measurement of the uncertainty at one of a two possible outcomes (deduction sustained or not)
- if a range of possible outcomes exist and one of those outcomes individually has a probability greater than 50% ('more likely than not'), then the position would be measured at that amount
- where there are a number of possible outcomes where no individual outcome has a probability greater than 50%, a cumulative probability approach would be used to determine the outcome that a greater than 50% chance of being sustained. The position would be measured as the amount of the outcome, where cumulative probability has reach 50%

If the IASB should decide to opt for the short term and easy solution to convergence with US GAAP, we recommend that the IASB justify in its basis for conclusions why the existing IAS 12 model is broken in practice, why it is conceptually flawed and why the proposed model is superior to the existing IAS 12 model. Further we request that the IASB clarify how the term "likely" should be interpreted to ensure global consistency for accounting for uncertain tax positions. Further it is also fundamentally important to consider whether and how it affects measurement of other provisions other than income tax.

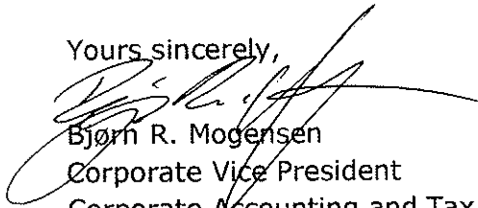
We believe that the revised calculation methodology for deferred taxes reflects the right process under the current "temporary difference" approach. However we do not find it very different to the existing IAS 12 model. We disagree with some of the content of the methodology. For example the rule of providing for deferred taxes based on the tax consequences of a hypothetical sale of assets at the reporting date. This is not relevant or helpful for investors in predicting the ability of the reporting entity to generate future cash flows in the scenarios where the reporting entity expects to use the assets or settle the liabilities during the ordinary course of business. Therefore we find it inconsistent with the Framework, for example paragraph 16. Nor does the rule take into account the fact the tax consequences around the world are very different depending on use or sale of assets. Finally to use the income tax rate applicable to recovery of the asset through use to temporary difference based on a tax base based on sale of the asset just seems inconsistent and difficult to

understand. We therefore support the existing IAS 12 model based on the recovery or settlement the carrying amount of its assets and liabilities as expected by the reporting entity.

Even though we are supportive of the idea of eliminating the initial recognition exemptions, we do not support the suggested approach in the ED to the elimination of the initial recognition exemptions as the arbitrary deferral of a premium or discount is counterintuitive and in many cases it will not result in an initial outcome that is materially different from the existing IAS 12 model. Further the new proposal introduces further complexity without substantially changing the outcome, we believe. Therefore, we are again supportive of retaining the existing IAS 12 model, unless a superior simple model is developed, which results in more relevant and explainable outcomes.

If you have any questions concerning our comments, please contact me, at +45 44 42 37 70

Yours sincerely,



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