

Sony Music Entertainment Denmark A/S

Vognmagergade 7, 6., DK-1120 København K

Annual Report for 1 April 2023 - 31 March 2024

CVR no. 12259484

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on 31 October 2024

Søren Erik Kristensen
Chairman of the General Meeting

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Management statement

Today, the Board of Directors and the Executive Board have discussed and approved the Annual Report of Sony Music Entertainment Denmark A/S for the financial year 1 April 2023 - 31 March 2024.

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

In our opinion, the Company financial statements give a true and fair view of the Company's financial position at 31 March 2024 and of the results of the Company's operations for the financial year 1 April 2023 - 31 March 2024.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

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

Copenhagen, 31 October 2024

Executive Board:

Henrik Daldorph Nielsen

Board of Directors:

Julie Greifer Swidler

Henrik Daldorph Nielsen

Søren Erik Kristensen

Independent Auditor's Report

To the Shareholder of Sony Music Entertainment Denmark A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 March 2024, and of the results of the Company's operations for the financial year 1 April 2023 - 31 March 2024 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Sony Music Entertainment Denmark A/S for the financial year 1 April 2023 - 31 March 2024, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

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

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

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's responsibilities for the Financial Statements

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

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

Independent Auditor's Report

Auditor's responsibilities for the audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

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

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

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

Independent Auditor's Report

Hellerup, 31 October 2024

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR no. 33771231

Allan Knudsen

State Authorised Public Accountant

mne29465

Company information

Entity

Sony Music Entertainment Denmark A/S
Vognmagergade 7, 6.
DK-1120 København K

Telephone number: +4532699700
Website: www.sonymusic.dk

Company CVR: 12259484

Financial year: 01-Apr - 31-Mar

Municipality of reg. office: Copenhagen

Directors

Julie Greifer Swidler

Henrik Daldorph Nielsen

Søren Erik Kristensen

Executive Board

Henrik Daldorph Nielsen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Strandvejen 44
DK-2900 Hellerup

Lawyers

Bird & Bird
Kalkbrænderiløbskaj 8
2100 København Ø

Company information (continued)

Bankers

Danske Bank
Holmens Kanal 2
1090 København K

Financial highlights

	2023/2024	2022/2023	2021/2022	2020/2021	2019 / 2020
	DKK	DKK	DKK	DKK	DKK
Key figures					
Operating profit/loss	(6.494)	6.843	9.245	9.518	1.440
Net financials	(3.059)	3.882	(10.669)	5.706	(10.192)
Net profit/loss for the year	(6.040)	5.112	(6.281)	13.832	(8.762)
	DKK	DKK	DKK	DKK	DKK
Balance sheet total	175.440	193.167	165.779	161.934	153.258
Equity	12.633	18.673	11.552	17.833	3.828
Investment in property, plant and equipment	607	237	391	345	157
Average number of full-time employees	52	56	53	53	61
Financial ratios					
Return on assets	(3,7)%	3,6%	5,7%	5,9%	0,9%
Solvency ratio	7,2%	9,7%	7,0%	11,0%	2,5%

Management Review

Key activities

The principal activities of the Company are production and recording of Danish artists and distribution and marketing of locally and internationally recorded music.

Financial review

The income statement of the Company for 2023/24 shows a loss of DKK 6,040,249 and at 31 March 2024 the balance sheet of the Company shows equity of DKK 12,632,878.

The past year and follow-up on development expectations from last year

The Danish market for recorded music (calendar year 2023) resulted in an increase of 3,7% compared to the year before. The digital development was primarily due to Apple Music, TDC Play and Spotify, which hold a leading role in the Danish digital market. We see a tendency that the market for recorded music has matured and we can't expect to see similar growth rates in the future.

The result for 2023/2024 is not satisfactory due to impairment of the investment in WAS Entertainment of DKK 3.000.000 and due to lower income for music played in Danish radio. The Danish music market grew less than expected with 3,7% in 2023 compared to our expectations of 4-6% for the financial year. That had also an impact on the result for the year. We did not as expected do any impairment of our investment in Disco Wax. The result was also impacted of a significant restructuring in the financial year.

Capital resources

We have now for some years seen a growing market but have moved more into a matured market. The company will continue to sign new artists but will have a much stronger focus on profitability and less on market share

We will therefore see continuing investment in new talent. We expect to keep the number of employees at the level as we see today.

The parent company, Sony Corporation, has issued a declaration, giving the company a credit limit, that will secure that the Company will be able to meet its liabilities during the financial year 2024/2025.

Risks

General risks

The company has its main risk around the laws relating to intellectual property rights and payments from digital providers.

Foreign branches

The Company has a branch office on Iceland which is included in the Annual Report. During the financial period the Branch has been closed

Management Review (continued)

Outlook

The management expects the market for recorded music in Denmark will continue to increase during 2024/2025. We still see a subscriber growth but there is a change in the split between Premium, family and student subscribers which will lead to a more flat revenue for the years to come. This will to that the management expectations are to achieve a result (after tax) that are at 1-3 mio. DKK. This is primarily due to the development of the digital market and no expectations of any impairments for our investments. We do not expect any restructuring in the financial year.

We will continue to invest in signings of new and existing artists but there will be a much stronger focus on profitability and the mix of which artist we have on the roster.

External environment

The company constantly works on securing the external environment and Sony Corporation has implemented strong environmental guidelines which the Company fulfills.

The Danish activities are not assessed to have a special effect on the external environment.

Recognition and measurement uncertainties

Recognition and measurement of investments in subsidiaries and associates are subject to uncertainty. Refer to description in note 1.

Unusual matters

The financial position at 31 March 2024 of the Company and the results of the activities of the Company for the financial year for 2023/2024 have not been affected by any unusual events.

Events after the balance sheet date

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Knowledge resources

The Company has no special intellectual capital resources which has significant effect on future earnings.

Income Statement at 1 April 2023 - 31 March 2024

	Note	2024 DKK	2023 DKK
Gross Profit		38.944.082	52.801.844
Staff costs	2	(41.134.438)	(41.381.110)
Amortisation, depreciation and impairment losses	3	(4.303.397)	(4.536.913)
(Loss)/profit before financial income and expenses		<u>(6.493.753)</u>	<u>6.883.821</u>
Share of net profit/loss in subsidiaries	4	0	5.000.000
Share of net profit/loss in associates	5	430.000	1.192.000
Financial income	6	93.861	103
Finance expenses	7	(3.582.407)	(2.310.065)
(LOSS)/PROFIT BEFORE TAX		<u>(9.552.299)</u>	<u>10.765.859</u>
Income tax expense	8	3.512.050	(5.653.604)
(LOSS)/PROFIT FOR THE YEAR		<u><u>(6.040.249)</u></u>	<u><u>5.112.255</u></u>

Statement of financial position at 1 April 2023 - 31 March 2024

	Note	31 March 2024 DKK	31 March 2023 DKK
ASSETS			
Non-current assets			
<i>Intangible assets</i>			
Software	9	375.711	563.567
Acquired rights		17.263.968	21.018.464
		<u>17.639.679</u>	<u>21.582.031</u>
<i>Property, plant and equipment</i>			
Fixtures and fittings, tools and equipment	10	344.541	98.585
Tangible assets		<u>344.541</u>	<u>98.585</u>
<i>Financial assets</i>			
Investments in subsidiaries	11	27.822.180	27.822.180
Investments in associates	12	1.899.000	3.149.000
Deposits	13	1.571.174	1.550.910
Fixed asset investment		<u>31.292.354</u>	<u>32.522.090</u>
Total non-current assets		<u>49.276.574</u>	<u>54.202.706</u>
Current assets			
<i>Receivables</i>			
Trade receivables		79.331.035	79.840.670
Receivables from group enterprises		9.140.614	17.704.539
Receivables from associates		3.868.467	6.401.536
Other receivables		23.485.921	14.060.292
Corporation tax receivable		900.000	2.341.519
Corporation tax receivable from group enterprises		3.862.765	1.829.480
Prepayments	14	1.500.571	2.156.380
		<u>122.089.373</u>	<u>124.334.416</u>
Cash		<u>4.073.681</u>	<u>14.629.471</u>
Total current assets		<u>126.163.054</u>	<u>138.963.887</u>
TOTAL ASSETS		<u>175.439.628</u>	<u>193.166.593</u>

Statement of financial position at 1 April 2023 - 31 March 2024 (continued)

	Note	31 March 2024 DKK	31 March 2023 DKK
Equity and liabilities			
Equity			
Share capital		914.000	914.000
Retained earnings		11.718.878	17.759.127
Equity holders' share of equity		<u>12.632.878</u>	<u>18.673.127</u>
Total equity		<u>12.632.878</u>	<u>18.673.127</u>
Non-current liabilities			
Provision for deferred tax	15	5.348.211	6.183.632
Provisions		<u>5.348.211</u>	<u>6.183.632</u>
Payables to group enterprises	16	36.000.000	36.000.000
Long-term debt		<u>36.000.000</u>	<u>36.000.000</u>
Current liabilities			
Trade payables		46.605.501	40.874.545
Payables to group enterprises	16	64.403.107	82.359.756
Other payables		10.449.931	9.075.533
Total current liabilities		<u>121.458.539</u>	<u>132.309.834</u>
Total liabilities		<u>157.458.539</u>	<u>168.309.834</u>
Total equity and liabilities		<u>175.439.628</u>	<u>193.166.593</u>
Uncertainty relating to recognition and measurement			1
Distribution of profit			17
Contingent assets, liabilities and other financial obligations			18
Related parties			19
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Statement of changes in equity

	Share capital DKK	Retained earnings DKK	Total DKK
Equity at 1 April 2023	914.000	17.759.127	18.673.127
Net profit/loss for the year	0	(6.040.249)	(6.040.249)
Equity at 31 March 2024	914.000	11.718.878	12.632.878

Notes to the financial statements**1. Uncertainty relating to recognition and measurement**

The Company's measurement of investments in subsidiaries and associates contains significant accounting estimates relating to the future cash flows of the entities. The actual cash flows are likely to be different from those estimated and can lead to material positive or negative impacts on the Financial Statements in regards to the booked value of the investment. It is Management's assessment that the measurement of the investments in the Financial Statements for the financial year 2023/24 reflects the current expectations to future cash flows from the investments.

2. Staff costs

	31 March 2024 DKK	31 March 2023 DKK
Wages and salaries	36.582.255	36.632.198
Pensions	2.671.687	2.792.723
Other social security expenses	309.406	442.864
Other staff expenses	1.571.090	1.513.325
	<u>41.134.438</u>	<u>41.381.110</u>
Average number of full-time employees	<u>52</u>	<u>56</u>

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

The Board of Directors are not remunerated for their function as Board of Directors.

3. Amortisation, depreciation and impairment losses

	31 March 2024 DKK	31 March 2023 DKK
<i>Amortisation, depreciation and impairment losses</i>		
Amortisation of intangible assets	3.942.352	4.158.352
Depreciation of property, plant and equipment	361.046	378.561
	<u>4.303.398</u>	<u>4.536.913</u>

Notes to the financial statements (continued)

4. Profit/loss from subsidiaries

	2024 DKK	2023 DKK
Dividend	0	5.000.000
	<u>0</u>	<u>5.000.000</u>

5. Profit/loss from associates

	2024 DKK	2023 DKK
Dividend	1.680.000	1.200.000
Impairment	(1.250.000)	(8.000)
	<u>430.000</u>	<u>1.192.000</u>

6. Financial income

	31 March 2024 DKK	31 March 2023 DKK
Other financial income	93.861	103
	<u>93.861</u>	<u>103</u>

7. Financial expenses

	31 March 2024 DKK	31 March 2023 DKK
Interest paid to group enterprises	3.256.844	1.236.945
Foreign exchange losses	315.840	1.029.311
Other financial expenses	9.723	43.809
	<u>3.582.407</u>	<u>2.310.065</u>

Notes to the financial statements (continued)**8. Tax on profit/loss for the year**

	31 March 2024 DKK	31 March 2023 DKK
<i>Tax for the year</i>		
Current tax for the year	(1.270.653)	3.531.754
Deferred tax for the year	(835.421)	2.121.850
Adjustment of tax concerning previous years	(1.405.976)	0
	<u>(3.512.050)</u>	<u>5.653.604</u>

9. Intangible assets

	Software DKK	Acquired Rights DKK
Cost at 1 April 2023	1.502.845	31.894.960
Cost at 31 March 2024	<u>1.502.845</u>	<u>31.894.960</u>
Amortisation at 1 April 2023	939.278	10.876.496
Amortisation for the year	187.856	3.754.496
Amortisation and impairment losses at 31 March 2024	<u>1.127.134</u>	<u>14.630.992</u>
Carrying amount at 31 March 2024	375.711	17.263.968
Amortised over	3-10 Years	3-10 Years

10. Property, plant and equipment

	Fixtures and fittings, plant and equipment DKK
Cost at 1 April 2023	5.421.843
Additions for the year	607.002
Cost at 31 March 2024	<u>6.028.845</u>

Notes to the financial statements (continued)**10. Property, plant and equipment (continued)**

	Fixtures and fittings, plant and equipment DKK
Impairment losses and depreciation at 1 April 2023	5.323.258
Depreciation for the year	361.046
Depreciation and impairment losses at 31 March 2024	<u>5.684.304</u>
Carrying amount at 31 March 2024	344.541

Depreciated over 3 Years

11. Investments in subsidiaries

	31 March 2024 DKK	31 March 2023 DKK
Cost at 1 April 2023	74.461.000	74.461.000
Cost at 31 March	<u>74.461.000</u>	<u>74.461.000</u>
Revaluations at 1 April	(46.638.820)	(46.638.820)
Revaluations at 31 March	<u>(46.638.820)</u>	<u>(46.638.820)</u>
Carrying amount at 31 March	<u>27.822.180</u>	<u>27.822.180</u>

Investments in subsidiaries are specified as follows:

<u>Name</u>	<u>Share capital</u>	<u>Votes and ownership</u>	<u>Equity</u>	<u>Net profit/loss for the year</u>
Discowax ApS	126.000	100%	4.348.282	366.930

Notes to the financial statements (continued)**12. Investments in associates**

	31 March 2024 DKK	31 March 2023 DKK
Cost at 1 April 2023	8.157.000	10.032.000
Additions for the year	0	15.869.960
Disposal due to merger	0	(17.744.960)
Cost at 31 March	8.157.000	8.157.000
Revaluations at 1 April	(5.008.000)	(5.000.000)
Impairment Loss	(1.250.000)	(8.000)
Revaluations at 31 March	(6.258.000)	(5.008.000)
Carrying amount at 31 March	1.899.000	3.149.000

**Investments in associates
are specified as follows:**

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Flexmusic ApS	Denmark	100.000	49%	(1.485.958)	(354.577)
One Seven Music ApS	Denmark	50.000	48%	7.727.407	4.709.925
The Label Sunday ApS	Denmark	40.000	20%	(763.550)	(552.341)
W.A.S. Entertainment ApS	Denmark	52.631	25%	(234.499)	(1.802.283)
OneRights Holding ApS	Denmark	40.000	49%	142.360	23.993

All associates are recognised and measured as separate entities.

13. Other fixed asset investment

Notes to the financial statements (continued)**13. Other fixed asset investment (continued)**

	31 March 2024 DKK	31 March 2023 DKK
Cost at 1 April	1.550.910	1.446.213
Additions for the year	20.264	104.697
Cost at 31 March	1.571.174	1.550.910
Carrying amount at 31 March	1.571.174	1.550.910

14. Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

15. Provision for deferred tax

	31 March 2024 DKK	31 March 2023 DKK
Provision for deferred tax at 1 April	6.183.632	4.061.782
Amounts recognised in the income statement for the year	(835.421)	2.121.850
Provision for deferred tax at 31 March	5.348.211	6.183.632

16. Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	31 March 2024 DKK	31 March 2023 DKK
<i>Payables to group enterprises</i>		
Between 1 and 5 years	36.000.000	36.000.000
Long-term part	36.000.000	36.000.000
Other short-term debt to group enterprises	64.403.107	82.359.756
	100.403.107	118.359.756

Notes to the financial statements (continued)**17. Appropriation of profit/loss**

	31 March 2024 DKK	31 March 2023 DKK
Retained earnings	(6.040.249)	5.112.255
	<u>(6.040.249)</u>	<u>5.112.255</u>

18. Contingent assets, liabilities and other financial obligations**18.1 Rental and lease obligations**

The Company has entered into a rental contract. The obligation in the non-notice period amounts to TDKK 5,489 as of 31. March 2024 (2023: TDKK 5,384)

18.2 Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

19. Related parties**19.1 Parties exercising control****Basis*****Controlling interest***

Sony Music Entertainment International Ltd.

Parent Company

19.2 Related party transactions

The Company has chosen only to disclose transactions which have not been made on an arm's length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act.

Transactions with related parties has been made on an arm's length basis.

19.3 Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company of the largest and smallest group:

Notes to the financial statements (continued)

19. Related parties (continued)

Name	Place of registered office
Sony Group Corporation	Tokyo, Japan

The Group Annual Report can be obtained at the following address:

Sony Group Corporation
7-1, Konan 1-chome, Minato-ku
Tokyo
108-0075
Japan

20. Events after the balance sheet date

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

21. Accounting policies

The annual report of Sony Music Entertainment Denmark A/S for 2023/2024 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

The Financial Statements for 2023/24 are presented in(DKK).

21.1 Consolidated Financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Sony Group Corporation, the Company has not prepared consolidated financial statements.

21.2 Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Sony Group Corporation, the Company has not prepared a cash flow statement.

21.3 Recognition and measurement

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

Notes to the financial statements (continued)**21. Accounting policies (continued)**

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

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

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

21.4 Financial statements**Business combinations****Pooling of interests**

Intragroup business combinations are accounted for under the pooling-of-interests method. Under this method, the two enterprises are combined at carrying amounts, and no differences are identified. Any consideration which exceeds the carrying amount of the acquired enterprise is recognized directly in equity. The pooling-of-interests method is applied as if the two enterprises had always been combined by restating comparative figures, however not restating comparative figures earlier than the time where the two enterprises were under joint control.

Leases

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Company.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

Danish kroner is used as the presentation currency. All other currencies are regarded as foreign currencies.

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

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

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

Notes to the financial statements (continued)

21. Accounting policies (continued)

21.5 Income statement

(a) Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement when the sale is considered effected based on the following criteria:

- delivery has been made before year end
- a binding sales agreement has been made
- the sales price has been determined; and
- payment has been received or may with reasonable certainty be expected to be received.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Royalty income is recognised when the underlying transactions is carried through.

(b) Cost of sales

Cost of sales incl. royalty and copyright comprise the raw materials and consumables consumed to achieve revenue for the year.

(c) Other external expenses

Other external expenses comprise indirect production costs and expenses for premises, sales and distribution as well as office expenses, etc.

(d) Gross margin

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, other operating income, cost of sales incl. royalty and copyright and other external expenses.

(e) Staff costs

Staff expenses comprise wages and salaries as well as payroll expenses.

(f) Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Notes to the financial statements (continued)**21. Accounting policies (continued)****(g) Other operating income and expenses**

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

(h) Income from investments in subsidiaries and associates

Dividends from subsidiaries and associates are recognised as income in the income statement when adopted at the General Meeting of the companies. However, dividends relating to earnings in the companies before they were acquired by the Parent Company are set off against the cost of the companies.

(i) Financial income and expenses

Financial income and expenses comprise interest, financial expenses in respect of finance leases, realised and unrealised exchange adjustments, price adjustment of securities, amortisation of mortgage loans as well as extra payments and repayment under the onaccount taxation scheme.

(j) Tax for the year

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

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

The Company is jointly taxed with Danish Group Companies. The tax effect of the joint taxation with the subsidiaries is allocated to enterprises showing profits or losses in proportion to their taxable incomes (full allocation with credit for tax losses).

21.6 Balance sheet**(a) Intangible assets**

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 5 years.

Acquired rights are measured at the lower of cost less accumulated amortisation and recoverable amount. Acquired rights are amortised on a straight line basis over 3 to 10 years.

(b) Property, plant and equipment

Tangible assets are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Notes to the financial statements (continued)**21. Accounting policies (continued)****(b) Property, plant and equipment (continued)**

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment	3 years
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The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

(c) Impairment of assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Goodwill for which a separate value in use cannot be determined as the asset does not on an individual basis generate future cash flows are reviewed for impairment together with the group of assets to which they are attributable.

(d) Investments in subsidiaries, associates and participating interests

Investments in subsidiaries and associates are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

(e) Other securities and investments

Other fixed asset investment consist of deposits.

(f) Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

(g) Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Notes to the financial statements (continued)**21. Accounting policies (continued)****(h) Corporation tax and deferred tax**

Deferred tax is recognised in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised in respect of temporary differences concerning goodwill not deductible for tax purposes and other items - apart from business acquisitions - where temporary differences have arisen at the time of acquisition without affecting the profit for the year or the taxable income.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured on the basis of the intended use of the asset and settlement of the liability, respectively.

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

Deferred tax assets and liabilities are offset within the same legal tax entity.

(i) Current tax receivables and liabilities

Current tax receivables and liabilities are recognised in the balance sheet at the amount calculated on the basis of the expected taxable income for the year adjusted for tax on taxable incomes for prior years. Tax receivables and liabilities are offset if there is a legally enforceable right of set-off and an intention to settle on a net basis or simultaneously.

(j) Financial Debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

(k) Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

(l) Financial Highlights**Explanation of financial ratios**

Return on assets

$$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$$

Solvency ratio

$$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$$