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# ***Sony Music Entertainment Denmark A/S***

Vognmagergade 7, 6., DK-1120 København K

## **Annual Report for 1 April 2021 - 31 March 2022**

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CVR No 12 25 94 84

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
30/9 2022

Søren Erik Kristensen  
Chairman of the General  
Meeting



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# Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Sony Music Entertainment Denmark A/S for the financial year 1 April 2021 - 31 March 2022.

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

In our opinion the Financial Statements give a true and fair view of the financial position at 31 March 2022 of the Company and of the results of the Company operations for 2021/22.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Copenhagen, 30 September 2022

## 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 2022 and of the results of the Company's operations for the financial year 1 April 2021 - 31 March 2022 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 2021 - 31 March 2022, 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 Statements Act. We did not identify any material misstatement in Management's Review.

# Independent Auditor's Report

## 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.

## 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.

## Independent Auditor's Report

- 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.

Hellerup, 30 September 2022

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

*CVR No 33 77 12 31*

Allan Knudsen  
State Authorised Public Accountant  
mne29465

Josephine Kilsgaard Holm  
State Authorised Public Accountant  
mne44114

## Company Information

### **The Company**

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

Telephone: + 45 32 69 97 00  
Website: [www.sonymusic.dk](http://www.sonymusic.dk)

CVR No: 12 25 94 84  
Financial period: 1 April - 31 March  
Municipality of reg. office: Copenhagen

### **Board of 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 4  
2100 København Ø

### **Bankers**

Danske Bank  
Holmens Kanal 2  
1090 København K

## Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	<u>2021/22</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2018/19</u>	<u>2017/18</u>
	TDKK	TDKK	TDKK	TDKK	TDKK
<b>Key figures</b>					
<b>Profit/loss</b>					
Operating profit/loss	9,245	9,518	1,440	37,933	6,079
Net financials	-10,669	5,706	-10,192	-31,558	-853
Net profit/loss for the year	-6,281	13,832	-8,762	-1,496	4,224
<b>Balance sheet</b>					
Balance sheet total	165,779	161,934	153,258	158,504	183,134
Equity	11,552	17,833	3,828	12,664	14,160
Investment in property, plant and equipment	391	345	0	469	921
Number of employees	53	53	61	65	53
<b>Ratios</b>					
Return on assets	5.7%	5.9%	0.9%	23.9%	3.5%
Solvency ratio	7.0%	11.0%	2.5%	8.0%	7.7%

In the financial year 2020/21 the Company has merged with DV Holding 2007 ApS and Rettighedsselskabet af 17. december 2019 ApS and the ratios have been restated.



# Management's 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.

## Development in the year

The income statement of the Company for 2021/22 shows a loss of DKK 6,281,333, and at 31 March 2022 the balance sheet of the Company shows equity of DKK 11,551,904.

The result for 2021/22 is not satisfactory due to impairment of the Disco Wax shares of DKK 11.541.820.

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

The Danish market for recorded music resulted in an increase of 2-4% 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.

## Capital resources

We have now for some years seen a growing market and the company will continue it's focus on growth and continue to sign more local artists. We expect to grow market shares and look at artist profitability. We will therefore see growing 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 2022/23.

## Operating risks

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

## Financial risk

There are no special financial risk.

## Branch office

The Company has a branch office on Iceland which is included in the Annual Report.

# Management's Review

## Targets and expectations for the year ahead

The management expects the market for recorded music in Denmark will continue to increase during 2022/23 and the expectations are to achieve a result (after tax) that are at 6-10 mio DKK. This is primarily due to the development of the digital market that is estimated to grow while we are looking at a matured market but we will focus on maintaining our local roster and an altered approach to the market and we don't expect to have impairment of the Disco Wax shares next year.

We will continue to invest in signings of new and existing artists and will expect to achieve a result of 6-10 mio DKK for next year.

## 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.

## Intellectual capital resources

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

## Uncertainty relating to recognition and measurement

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

## Unusual events

The financial position at 31 March 2022 of the Company and the results of the activities of the Company for the financial year for 2021/22 have not been affected by any unusual events.

## Subsequent events

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

## Income Statement 1 April 2021 - 31 March 2022

	Note	2021/22 DKK	2020/21 DKK
<b>Gross profit/loss</b>		<b>51,375,900</b>	<b>55,772,128</b>
Staff expenses	2	-38,678,266	-42,963,717
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-3,317,336	-3,290,214
<b>Profit/loss before financial income and expenses</b>		<b>9,380,298</b>	<b>9,518,197</b>
Profit/loss from subsidiaries	4	-11,541,820	0
Profit/loss from associates	5	1,307,500	5,194,000
Financial income	6	15,687	1,062,256
Financial expenses	7	-450,556	-549,875
<b>Profit/loss before tax</b>		<b>-1,288,891</b>	<b>15,224,578</b>
Tax on profit/loss for the year	8	-4,992,442	-1,392,615
<b>Net profit/loss for the year</b>		<b>-6,281,333</b>	<b>13,831,963</b>

## Balance Sheet at 31 March 2022

### Assets

	Note	2022 DKK	2021 DKK
Software		751,422	939,278
Acquired rights		7,244,000	9,920,000
<b>Intangible assets</b>	9	<b>7,995,422</b>	<b>10,859,278</b>
Other fixtures and fittings, tools and equipment		374,747	436,745
<b>Tangible assets</b>	10	<b>374,747</b>	<b>436,745</b>
Investments in subsidiaries	11	27,822,180	39,364,000
Investments in associates	12	5,032,000	5,024,000
Deposits	13	1,446,213	1,447,698
<b>Fixed asset investment</b>		<b>34,300,393</b>	<b>45,835,698</b>
<b>Fixed assets</b>		<b>42,670,562</b>	<b>57,131,721</b>
Trade receivables		71,302,567	62,382,316
Receivables from group enterprises		12,691,202	13,991,539
Receivables from associates		6,907,500	6,744,000
Other receivables		19,319,737	10,518,713
Corporation tax		8,948,182	7,708,632
Prepayments	14	2,189,981	2,035,425
<b>Receivables</b>		<b>121,359,169</b>	<b>103,380,625</b>
<b>Cash at bank and in hand</b>		<b>1,749,420</b>	<b>1,421,406</b>
<b>Currents assets</b>		<b>123,108,589</b>	<b>104,802,031</b>
<b>Assets</b>		<b>165,779,151</b>	<b>161,933,752</b>

## Balance Sheet at 31 March 2022

### Liabilities and equity

	Note	2022 DKK	2021 DKK
Share capital		914,000	914,000
Retained earnings		10,637,904	16,919,237
<b>Equity</b>		<b>11,551,904</b>	<b>17,833,237</b>
Provision for deferred tax	15	4,061,782	1,394,328
<b>Provisions</b>		<b>4,061,782</b>	<b>1,394,328</b>
Payables to group enterprises		36,000,000	0
<b>Long-term debt</b>	16	<b>36,000,000</b>	<b>0</b>
Trade payables		42,017,499	42,644,203
Payables to group enterprises	16	64,031,939	88,963,711
Other payables		8,110,020	11,098,273
Deferred income		6,007	0
<b>Short-term debt</b>		<b>114,165,465</b>	<b>142,706,187</b>
<b>Debt</b>		<b>150,165,465</b>	<b>142,706,187</b>
<b>Liabilities and equity</b>		<b>165,779,151</b>	<b>161,933,752</b>
Uncertainty relating to recognition and measurement	1		
Distribution of profit	17		
Contingent assets, liabilities and other financial obligations	18		
Related parties	19		
Subsequent events	20		
Accounting Policies	21		

## Statement of Changes in Equity

	Share capital	Retained earnings	Total
	DKK	DKK	DKK
Equity at 1 April	914,000	16,919,237	17,833,237
Net profit/loss for the year	0	-6,281,333	-6,281,333
<b>Equity at 31 March</b>	<b>914,000</b>	<b>10,637,904</b>	<b>11,551,904</b>

# 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 2021/22 reflects the current expectations to future cash flows from the investments.

	<u>2021/22</u> DKK	<u>2020/21</u> DKK
<b>2 Staff expenses</b>		
Wages and salaries	34,984,650	39,858,787
Pensions	2,387,028	2,261,755
Other social security expenses	467,904	354,926
Other staff expenses	838,684	488,249
	<u>38,678,266</u>	<u>42,963,717</u>
<b>Average number of employees</b>	<u>53</u>	<u>53</u>

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

## 3 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment

Amortisation of intangible assets	2,863,856	2,863,856
Depreciation of property, plant and equipment	453,480	426,358
	<u>3,317,336</u>	<u>3,290,214</u>

## 4 Profit/loss from subsidiaries

Impairment of investments in subsidiaries	-11,541,820	0
	<u>-11,541,820</u>	<u>0</u>

## Notes to the Financial Statements

	<u>2021/22</u>	<u>2020/21</u>
	DKK	DKK
<b>5 Profit/loss from associates</b>		
Dividend	1,307,500	5,194,000
	<b><u>1,307,500</u></b>	<b><u>5,194,000</u></b>
<b>6 Financial income</b>		
Other financial income	100	95,073
Exchange adjustments	15,587	967,183
	<b><u>15,687</u></b>	<b><u>1,062,256</u></b>
<b>7 Financial expenses</b>		
Interest paid to group enterprises	328,065	537,687
Other financial expenses	122,491	12,188
	<b><u>450,556</u></b>	<b><u>549,875</u></b>
<b>8 Tax on profit/loss for the year</b>		
Current tax for the year	1,397,796	1,876,142
Deferred tax for the year	2,933,116	358,785
Adjustment of tax concerning previous years	927,192	0
Adjustment of deferred tax concerning previous years	-265,662	-842,312
	<b><u>4,992,442</u></b>	<b><u>1,392,615</u></b>



## Notes to the Financial Statements

### 9 Intangible assets

	<u>Software</u> DKK	<u>Acquired rights</u> DKK
Cost at 1 April	1,502,845	14,150,000
Cost at 31 March	<u>1,502,845</u>	<u>14,150,000</u>
Amortisation at 1 April	563,567	4,230,000
Amortisation for the year	<u>187,856</u>	<u>2,676,000</u>
Amortisation at 31 March	<u>751,423</u>	<u>6,906,000</u>
<b>Carrying amount at 31 March</b>	<b><u>751,422</u></b>	<b><u>7,244,000</u></b>
Amortised over	<u>3-10 years</u>	<u>3-10 years</u>

### 10 Tangible assets

	<u>Other fixtures and fittings, tools and equipment</u> DKK
Cost at 1 April	5,348,379
Additions for the year	391,482
Disposals for the year	<u>-270,000</u>
Cost at 31 March	<u>5,469,861</u>
Impairment losses and depreciation at 1 April	4,911,634
Depreciation for the year	453,480
Reversal of impairment and depreciation of sold assets	<u>-270,000</u>
Impairment losses and depreciation at 31 March	<u>5,095,114</u>
<b>Carrying amount at 31 March</b>	<b><u>374,747</u></b>
Depreciated over	<u>3 years</u>

## Notes to the Financial Statements

	2022 DKK	2021 DKK
<b>11 Investments in subsidiaries</b>		
Cost at 1 April	74,461,000	74,585,000
Net effect from merger	0	-124,000
Cost at 31 March	<u>74,461,000</u>	<u>74,461,000</u>
Revaluations at 1 April	-35,097,000	-35,097,000
Impairment loss	-11,541,820	0
Revaluations at 31 March	<u>-46,638,820</u>	<u>-35,097,000</u>
<b>Carrying amount at 31 March</b>	<b><u>27,822,180</u></b>	<b><u>39,364,000</u></b>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Discowax ApS	Denmark	125.000	100%	6,717,013	947,734

## Notes to the Financial Statements

	2022 DKK	2021 DKK
<b>12 Investments in associates</b>		
Cost at 1 April	10,024,000	10,024,000
Additions for the year	8,000	0
Cost at 31 March	<u>10,032,000</u>	<u>10,024,000</u>
Revaluations at 1 April	<u>-5,000,000</u>	<u>-5,000,000</u>
Revaluations at 31 March	<u>-5,000,000</u>	<u>-5,000,000</u>
<b>Carrying amount at 31 March</b>	<b><u>5,032,000</u></b>	<b><u>5,024,000</u></b>

Investments in associates are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
MX3 ApS	Denmark	50.000	50%	411,925	2,101,076
Flexmusic ApS	Denmark	100.000	49%	-783,651	-1,099,946
One Seven Music ApS	Denmark	50.000	48%	4,353,435	3,916,850
The Label Sunday ApS	Danmark	40.000	20%	-916,832	-956,832

All associates are recognised and measured as separate entities.

### 13 Other fixed asset investment

	Deposits DKK
Cost at 1 April	1,447,698
Disposals for the year	<u>-1,485</u>
Cost at 31 March	<u>1,446,213</u>
<b>Carrying amount at 31 March</b>	<b><u>1,446,213</u></b>

### 14 Prepayments

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

## Notes to the Financial Statements

	2022	2021
	DKK	DKK
<b>15 Provision for deferred tax</b>		
Provision for deferred tax at 1 April	1,394,328	1,877,855
Amounts recognised in the income statement for the year	2,667,454	-483,527
<b>Provision for deferred tax at 31 March</b>	<b>4,061,782</b>	<b>1,394,328</b>

### 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:

#### Payables to group enterprises

Between 1 and 5 years	36,000,000	0
Long-term part	36,000,000	0
Other short-term debt to group enterprises	64,031,939	88,963,711
	<b>100,031,939</b>	<b>88,963,711</b>

### 17 Distribution of profit

Retained earnings	-6,281,333	13,831,963
	<b>-6,281,333</b>	<b>13,831,963</b>

## Notes to the Financial Statements

	<u>2022</u>	<u>2021</u>
	DKK	DKK
<b>18 Contingent assets, liabilities and other financial obligations</b>		
<b>Rental and lease obligations</b>		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	272,040	272,040
Between 1 and 5 years	<u>45,340</u>	<u>362,720</u>
	<u><b>317,380</b></u>	<u><b>634,760</b></u>

The Company has entered into a rental contract. The obligation in the non-notice period amounts to TDKK 4.311 as of 31 March 2022 (2021: TDKK 4.311).

### 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.

# Notes to the Financial Statements

## 19 Related parties

	<u>Basis</u>
<b>Controlling interest</b>	
Sony Music Entertainment International Ltd.	Parent Company

### 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.

### Consolidated Financial Statements

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

<u>Name</u>	<u>Place of registered office</u>
Sony Group Corporation	Tokyo, Japan

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

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

## 20 Subsequent events

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

# Notes to the Financial Statements

## 21 Accounting Policies

The Annual Report of Sony Music Entertainment Denmark A/S for 2021/22 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2021/22 are presented in DKK.

### 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.

### 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.

### 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.

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.

# Notes to the Financial Statements

## 21 Accounting Policies (continued)

### **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 recognised directly in equity. The pooling-of-interests method is applied as if the two enterprises had always been combined by restating comparative figures.

### **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

## 21 Accounting Policies (continued)

### Income Statement

#### 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.

#### Cost of sales incl. royalty and copyright

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

#### Other external expenses

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

#### Gross profit

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.

#### Staff expenses

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

#### 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

## 21 Accounting Policies (continued)

### **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.

### **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.

### **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.

### **Tax on profit/loss 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).

# Notes to the Financial Statements

## 21 Accounting Policies (continued)

### Balance Sheet

#### 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.

#### Tangible assets

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.

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.

#### Impairment of fixed 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.

# Notes to the Financial Statements

## 21 Accounting Policies (continued)

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.

### Investments in subsidiaries and associates

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

### Other fixed asset investment

Other fixed asset investment consist of deposits.

### Receivables

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

### Prepayments

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

### Deferred tax assets and liabilities

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.

# Notes to the Financial Statements

## 21 Accounting Policies (continued)

### 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.

### Financial debts

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

### Deferred income

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

## Financial Highlights

### Explanation of financial ratios

Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$