
Sony Music Entertainment Denmark A/S

Vognmagergade 7, 6., DK-1120 København K

Annual Report for 1 April 2019 - 31 March 2020

CVR No 12 25 94 84

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
10/12 2020

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 2019 - 31 March 2020.

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 2020 of the Company and of the results of the Company operations for 2019/20.

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.

København, 10 December 2020

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 2020 and of the results of the Company's operations for the financial year 1 April 2019 - 31 March 2020 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 2019 - 31 March 2020, 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' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 Financials 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, 10 December 2020

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Allan Knudsen

statsautoriseret revisor

mne29465

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

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:

	2019/20	2018/19	2017/18	2016/17	2015/16
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Revenue	246,553	273,899	239,691	214,242	169,849
Operating profit/loss	1,493	37,933	6,079	-2,211	6,031
Net financials	-10,117	-31,558	-853	3,681	843
Net profit/loss for the year	-8,662	-1,496	4,224	1,221	7,309
Balance sheet					
Balance sheet total	153,096	158,504	183,134	96,723	89,243
Equity	4,001	12,664	14,160	9,936	8,715
Investment in property, plant and equipment	157	469	921	0	43
Number of employees	61	65	53	46	41
Ratios					
Gross margin	18.5%	29.2%	16.2%	12.4%	16.1%
Profit margin	0.6%	13.8%	2.7%	-1.2%	1.2%
Return on assets	1.0%	23.9%	3.5%	-2.8%	2.4%
Solvency ratio	2.6%	8.0%	7.7%	10.3%	9.8%

The ratios for 2015/16 - 2017/18 have been restated due to the merger between Sony Music Entertainment Denmark A/S and Mermaid Records ApS.

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 2019/20 shows a loss of DKK 8,662,457, and at 31 March 2020 the balance sheet of the Company shows equity of DKK 4,001,274.

The result for 2019/20 is not satisfactory.

The implications of COVID-19 with many governments across the world deciding to "close down their countries" will have great impact on the global economy.

The greater part of the Company's earnings originates from online streaming, which means that the Company has not been negatively affected by COVID-19. The Company is not expected to be noticeably affected.

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

The Danish market for recorded music resulted in an increase of 5-10% compared to the year before. The drop in sales of physical products was far greater than expected but the sale via digital channels showed an increase 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.

The Company has as at 1 April 2018 merged with former subsidiary Mermaid Records ApS.

Management's Review

Capital resources

The income statement of the Company for 2019/20 shows a loss off DKK 8.662.457 and at 31st of March 2020 the balance sheet of the Company shows an equity of DKK 4.001.274.

After many years with a declining market we have seen a turnaround and the market has started to increase and the strategy going forward will have strong focus on growth. During the year the company has aggressively tried to create a market while the forward-looking strategy will be to adapt to the actual size of the market.

The company will have more releases and the company expect to increase the number of employees and freelancers.

The company has also accordingly adjusted its development and marketing costs.

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 2020/21.

Special risks - operating risks and financial risks

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.

Targets and expectations for the year ahead

We expect that the recorded music market will continue to grow and expect the Danish Music market will grow by 5-9% next year . We will continue to invest in signing new and existing artists and will expect to achieve a much better result in 2020/21 compared to 2019/20.

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.

Management's Review

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 in the Annual Report have not been subject to any uncertainty.

Unusual events

The financial position at 31 March 2020 of the Company and the results of the activities of the Company for the financial year for 2019/20 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 2019 - 31 March 2020

	Note	2019/20 DKK	2018/19 DKK
Revenue		246,552,718	273,898,527
Cost of sales incl. royalty and copyright		-125,038,034	-119,859,278
Other external expenses		-76,011,179	-74,025,426
Gross profit/loss		45,503,505	80,013,823
Staff expenses	2	-42,501,185	-40,794,236
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	3	-1,509,662	-1,286,682
Resultat før finansielle poster		1,492,658	37,932,905
Profit from subsidiaries	4	-5,936,163	-29,160,837
Profit from associates	5	-3,045,000	-1,020,000
Financial income	6	300	8,012
Financial expenses	7	-1,135,876	-1,385,498
Resultat før skat		-8,624,081	6,374,582
Tax on profit/loss for the year	8	-38,376	-7,870,582
Net profit/loss for the year		-8,662,457	-1,496,000

Balance Sheet at 31 March 2020

Assets

	Note	2020 DKK	2019 DKK
Software		1,127,134	1,314,989
Acquired rights		4,646,000	2,304,000
Intangible assets	9	5,773,134	3,618,989
Other fixtures and fittings, tools and equipment		518,125	854,876
Tangible assets	10	518,125	854,876
Investments in subsidiaries	11	39,363,000	45,299,163
Investments in associates	12	5,024,000	8,069,000
Other receivables	13	1,403,539	1,396,546
Fixed asset investments		45,790,539	54,764,709
Fixed assets		52,081,798	59,238,574
Trade receivables		52,689,898	46,487,164
Receivables from group enterprises		15,585,760	29,629,637
Receivables from associates		4,630,176	6,187,500
Other receivables		16,509,630	11,918,074
Corporation tax		7,261,235	0
Prepayments	14	2,090,220	2,102,906
Receivables		98,766,919	96,325,281
Cash at bank and in hand		2,247,079	2,940,157
Currents assets		101,013,998	99,265,438
Assets		153,095,796	158,504,012

Balance Sheet at 31 March 2020

Liabilities and equity

	Note	2020 DKK	2019 DKK
Share capital		914,000	914,000
Retained earnings		3,087,274	11,749,731
Equity		4,001,274	12,663,731
Provision for deferred tax	15	1,877,855	1,813,754
Provisions		1,877,855	1,813,754
Other payables		2,042,135	0
Long-term debt	16	2,042,135	0
Trade payables		45,178,286	50,853,390
Payables to group enterprises		91,865,038	76,710,346
Corporation tax		0	7,437,986
Other payables	16	8,131,208	8,941,267
Deferred income	17	0	83,538
Short-term debt		145,174,532	144,026,527
Debt		147,216,667	144,026,527
Liabilities and equity		153,095,796	158,504,012
Subsequent events	1		
Distribution of profit	18		
Contingent assets, liabilities and other financial obligations	19		
Related parties	20		
Accounting Policies	21		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	DKK	DKK	DKK
Equity at 1 April	914,000	11,749,731	12,663,731
Net profit/loss for the year	0	-8,662,457	-8,662,457
Equity at 31 March	914,000	3,087,274	4,001,274

Notes to the Financial Statements

1 Subsequent events

The implications of COVID-19 with many governments across the world deciding to "close down their countries" will have great impact on the global economy.

The greater part of the Company's earnings originates from online streaming, which means that the Company has not been negatively affected by COVID-19. The Company is not expected to be noticeably affected.

	2019/20 DKK	2018/19 DKK
2 Staff expenses		
Wages and salaries	37,533,500	36,306,762
Pensions	2,336,265	2,239,003
Other social security expenses	568,054	411,957
Other staff expenses	2,063,366	1,836,514
	42,501,185	40,794,236
Average number of employees	61	65

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	1,045,856	883,856
Depreciation of property, plant and equipment	414,200	408,126
Gain and loss on disposal	49,606	-5,300
	1,509,662	1,286,682

4 Profit from subsidiaries

Impairment of investments in subsidiaries	-5,936,163	-29,160,837
	-5,936,163	-29,160,837

Notes to the Financial Statements

	<u>2019/20</u>	<u>2018/19</u>
	DKK	DKK
5 Profit from associates		
Impairment of investments in associates	-3,045,000	-1,020,000
	<u>-3,045,000</u>	<u>-1,020,000</u>
6 Financial income		
Other financial income	300	8,012
	<u>300</u>	<u>8,012</u>
7 Financial expenses		
Interest paid to group enterprises	411,466	508,583
Other financial expenses	44,009	42,102
Exchange adjustments	680,401	834,813
	<u>1,135,876</u>	<u>1,385,498</u>
8 Tax on profit/loss for the year		
Current tax for the year	-25,725	5,892,578
Deferred tax for the year	64,101	2,153,468
Adjustment of deferred tax concerning previous years	0	-175,464
	<u>38,376</u>	<u>7,870,582</u>

Notes to the Financial Statements

9 Intangible assets

	<u>Software</u> DKK	<u>Acquired rights</u> DKK
Cost at 1 April	1,502,845	3,000,000
Additions for the year	<u>0</u>	<u>3,200,000</u>
Cost at 31 March	<u>1,502,845</u>	<u>6,200,000</u>
Amortisation at 1 April	187,856	696,000
Amortisation for the year	<u>187,855</u>	<u>858,000</u>
Amortisation at 31 March	<u>375,711</u>	<u>1,554,000</u>
Carrying amount at 31 March	<u>1,127,134</u>	<u>4,646,000</u>

10 Tangible assets

	<u>Other fixtures and fittings, tools and equipment</u> DKK
Cost at 1 April	5,132,926
Additions for the year	157,054
Disposals for the year	<u>-286,579</u>
Cost at 31 March	<u>5,003,401</u>
Impairment losses and depreciation at 1 April	4,278,050
Depreciation for the year	414,200
Reversal of impairment and depreciation of sold assets	<u>-206,974</u>
Impairment losses and depreciation at 31 March	<u>4,485,276</u>
Carrying amount at 31 March	<u>518,125</u>
Depreciated over	<u>3 years</u>

Notes to the Financial Statements

	2020 DKK	2019 DKK
11 Investments in subsidiaries		
Cost at 1 April	74,460,000	74,460,000
Cost at 31 March	74,460,000	74,460,000
Revaluations at 1 April	-29,160,837	0
Impairment loss	-5,936,163	-29,160,837
Revaluations at 31 March	-35,097,000	-29,160,837
Carrying amount at 31 March	39,363,000	45,299,163

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
DV Holding 2007 ApS	Denmark	125.000	100%	1,289,175	577,879

Alle dattervirksomheder er indregnet og målt som selvstændige enheder.

Notes to the Financial Statements

	2020 DKK	2019 DKK
12 Investments in associates		
Cost at 1 April	10,024,000	10,024,000
Cost at 31 March	10,024,000	10,024,000
Revaluations at 1 April	-1,955,000	-935,000
Impairment loss	-3,045,000	-1,020,000
Revaluations at 31 March	-5,000,000	-1,955,000
Carrying amount at 31 March	5,024,000	8,069,000

Investments in associates are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
MX3 ApS	Denmark	125.000	50%	3,019,847	2,188,033
Flexmusic ApS	Denmark	100.000	49%	1,185,857	-1,271,705
One Seven Music ApS	Denmark	24.000	48%	-995,086	27,240

All associates are recognised and measured as separate entities.

13 Other

	Other receiv- ables DKK
Cost at 1 April	1,396,546
Additions for the year	6,993
Cost at 31 March	1,403,539
Carrying amount at 31 March	1,403,539

14 Prepayments

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

Notes to the Financial Statements

	2020 <u>DKK</u>	2019 <u>DKK</u>
15 Provision for deferred tax		
Provision for deferred tax at 1 April	1,813,754	-164,250
Amounts recognised in the income statement for the year	64,101	2,153,468
Amounts recognised in equity for the year	<u>0</u>	<u>-175,464</u>
Provision for deferred tax at 31 March	<u>1,877,855</u>	<u>1,813,754</u>

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:

Other payables

Between 1 and 5 years	<u>2,042,135</u>	<u>0</u>
Long-term part	2,042,135	0
Other short-term payables	<u>8,131,208</u>	<u>8,941,267</u>
	<u>10,173,343</u>	<u>8,941,267</u>

17 Deferred income

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

	2019/20 <u>DKK</u>	2018/19 <u>DKK</u>
18 Distribution of profit		
Retained earnings	<u>-8,662,457</u>	<u>-1,496,000</u>
	<u>-8,662,457</u>	<u>-1,496,000</u>

Notes to the Financial Statements

	<u>2020</u> DKK	<u>2019</u> DKK
19 Contingent assets, liabilities and other financial obligations		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	272,040	272,040
Between 1 and 5 years	<u>589,420</u>	<u>861,460</u>
	<u>861,460</u>	<u>1,133,500</u>

Selskabet har indgået huslejekontrakt. Forpligtelsen i opsigelsesperioden udgør pr. 31. marts 2020 TDKK 4.243 (2019: TDKK 4.175).

Other contingent liabilities

Koncernens danske selskaber hæfter solidarisk for skat af koncernens sambeskattede indkomst.

Notes to the Financial Statements

20 Related parties

	Basis
Controlling interest	
Sony Music Entertainment International Ltd.	Moderselskab

Transactions

Transactions with related parties has been made on market terms.

Consolidated Financial Statements

Selskabet indgår for den største og mindste koncern i koncernrapporten for det ultimative moderselskab

<u>Name</u>	<u>Place of registered office</u>
Sony Corporation	

Koncernrapporten for Sony Corporation kan rekvireres på følgende adresse:

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

Notes to the Financial Statements

21 Accounting Policies

The Annual Report of Sony Music Entertainment Denmark A/S for 2019/20 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 2019/20 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 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 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)

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.

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.

Notes to the Financial Statements

21 Accounting Policies (continued)

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service completed for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Company. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

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.

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.

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.

Notes to the Financial Statements

21 Accounting Policies (continued)

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).

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.

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

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.

Notes to the Financial Statements

21 Accounting Policies (continued)

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

Other 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.

Equity

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.

Notes to the Financial Statements

21 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

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