MUSIC Group Commercial DK A/S

Sindalsvej 34, DK-8240 Risskov

Annual Report for 1 January - 31 December 2016

CVR No 12 90 07 32

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 6 /7 2017

Cheryl S. Saldaña - de Leon

Cheryl Saldana-De Leon
Chairman

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of MUSIC Group Commercial DK A/S for the financial year 1 January - 31 December 2016.

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 December 2016 of the Company and of the results of the Company operations for 2016.

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.

Risskov, 6 July 2017

Executive Board

Cheryl Saldana-De Leon
CEO

Board of Directors

Raul Guevara Gerodias Chairman	Vanessa Raymundo-Uy	Cheryl Saldana-De Leon

Independent Auditor's Report

To the Shareholder of MUSIC Group Commercial DK A/S

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of MUSIC Group Commercial DK A/S for the financial year 1 January - 31 December 2016, 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.

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.

Independent Auditor's Report

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.

- 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

Independent Auditor's Report

scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Aarhus, 6 July 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Claus Lindholm Jacobsen
State Authorised Public Accountant

Claus Lyngsø Sørensen
State Authorised Public Accountant

Company Information

The Company	MUSIC Group Commercial DK A/S Sindalsvej 34 DK-8240 Risskov Telephone: + 45 87 42 70 00 Facsimile: + 45 87 42 70 10 Website: www.music-group.com CVR No: 12 90 07 32 Financial period: 1 January - 31 December Municipality of reg. office: Aarhus
Board of Directors	Raul Guevara Gerodias, Chairman Vanessa Cancio-Raymundo Cheryl Saldana-De Leon
Executive Board	Cheryl Saldana-De Leon
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Nobelparken Jens Chr. Skous Vej 1 DK-8000 Aarhus C
Bankers	Danske Bank

Financial Highlights

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

	2016	2014/15	2013/14	2012/13	2011/12
	kDKK	kDKK	kDKK	kDKK	kDKK
Key figures					
Profit/loss					
Gross profit/loss	46,177	74,754	38,178	46,240	46,210
Operating profit/loss	18,830	19,071	-1,977	3,970	5,434
Net financials	4,477	5,196	1,374	4,273	7,392
Profit/loss from extraordinary items	0	0	0	8,243	12,826
Net profit/loss for the year	17,739	18,549	-875	6,372	9,629
Balance sheet					
Balance sheet total	161,645	139,087	109,623	101,312	134,376
Equity	64,288	46,602	28,053	48,910	52,171
Investment in property, plant and equipment	29	45	0	13	170
Number of employees	36	53	53	56	48
Ratios					
Return on assets	11,6%	13,7%	-1,8%	3,9%	4,0%
Solvency ratio	39,8%	33,5%	25,6%	48,3%	38,8%
Return on equity	32,0%	49,7%	-2,3%	12,6%	20,3%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

The financial year 2014/15 was extended to 18 months due to change of Balance Sheet date to 31 December. The reason was alignment of the Balance Sheet date to the new Parent Company, MUSIC Group Limited.

Other years presented contain a 12 month's period.

Management's Review

Key activities

MUSIC Group Commercial DK A/S sells and distributes products for the professional audio market.

The Company has entered into sales and distribution agreements with the affiliated subsidiaries: MUSIC Group Innovation DK A/S, MUSIC Group Innovation SC Ltd., MUSIC Group Innovation SE AB and MUSIC Group Innovation CA Inc.

The primary geographical markets are Europe and Asia.

Development in the year

The income statement of the Company for 2016 shows a profit of DKK 18 million, and at 31 December 2016 the balance sheet of the Company shows equity of DKK 64 million.

In light of the Company's expectations for the operating results for the year, the operating results achieved are regareded as satisfactory.

Subsidiaries

The Company's subsidiaries have had no activity in the year.

Special risks

Foreign exchange risks

Almost all sales are invoiced in foreign currencies which mainly relates to USD and EUR.

In accordance with The TC Group A/S's strategy in this area, the Company is on a current basis seeking, to the extent possible, to particicpate in The TC Group's matching currencies against purchase and cost currencies.

Credit risks

The most material credit risk relates to the Company's trade receivables.

The Company performs indicidual customer credit ratings on a current basis. No individual customer constitutes a major part of the Company's total sales.

Liquidity risks

The Company's necessary cash resources are ensured through the cooperation with The TC Group A/S's finance function.

Management’s Review

Environmental

The Company's activities are not assessed to have adverse environmental impact regards noise, smoke, discharge of waste and massive use of energy.

Outlook

The Company expects to maintain earnings next year.

Subsequent events

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

Income Statement
1 January - 31 December 2016

	Note	2016 kDKK	2014/15 (18 Months) kDKK
Gross profit/loss		**46,177**	**74,754**
Distribution expenses	1	-18,535	-44,839
Administrative expenses	1	-8,812	-10,844
Operating profit/loss		**18,830**	**19,071**
Profit/loss before financial income and expenses		**18,830**	**19,071**
Income from investments in subsidiaries		-1,388	-65
Financial income	2	8,099	5,970
Financial expenses		-2,234	-709
Profit/loss before tax		**23,307**	**24,267**
Tax on profit/loss for the year	3	-5,568	-5,718
Net profit/loss for the year		**17,739**	**18,549**

Balance Sheet 31 December 2016

Assets

	Note	2016	2015
		kDKK	kDKK
Software		0	2
Intangible assets	4	**0**	**2**
Plant and machinery		17	23
Other fixtures and fittings, tools and equipment		12	17
Property, plant and equipment	5	**29**	**40**
Investments in subsidiaries	6	16,324	17,768
Fixed asset investments		**16,324**	**17,768**
Fixed assets		**16,353**	**17,810**
Inventories	7	**116**	**0**
Trade receivables		24,221	36,889
Receivables from group enterprises		77,531	61,603
Other receivables		3,675	778
Deferred tax asset	8	178	290
Prepayments	9	3,826	49
Receivables		**109,431**	**99,609**
Værdipapirer		**31**	**31**
Cash at bank and in hand		**35,714**	**21,637**
Currents assets		**145,292**	**121,277**
Assets		**161,645**	**139,087**

Balance Sheet 31 December 2016

Liabilities and equity

	Note	2016	2015
		kDKK	kDKK
Share capital		3,081	3,081
Retained earnings		61,207	43,521
Equity		**64,288**	**46,602**
Trade payables		533	1,071
Payables to group enterprises		84,976	77,566
Corporation tax		5,456	7,543
Other payables		6,392	6,305
Short-term debt		**97,357**	**92,485**
Debt		**97,357**	**92,485**
Liabilities and equity		**161,645**	**139,087**
Distribution of profit	10		
Contingent assets, liabilities and other financial obligations	11		
Related parties	12		
Accounting Policies	13		

Statement of Changes in Equity

	Share capital	Retained earnings	Total
	kDKK	kDKK	kDKK
Equity at 1 January 2016	3,081	43,521	46,602
Exchange adjustments	0	-53	-53
Net profit/loss for the year	0	17,739	17,739
Equity at 31 December 2016	**3,081**	**61,207**	**64,288**

Notes to the Financial Statements

		2016	2014/15 (18 Months)
		kDKK	kDKK
1	**Staff**		
	Wages and Salaries	12,406	29,817
	Pensions	426	966
	Other social security expenses	1,015	2,125
	Other staff expenses	678	946
		14,525	**33,854**
	Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
	Distribution expenses	14,266	32,700
	Administrative expenses	259	1,154
		14,525	**33,854**
	Average number of employees	**36**	**53**

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

		2016	2014/15 (18 Months)
2	**Financial income**		
	Interest received from group enterprises	3,185	3,094
	Other financial income	251	256
	Exchange gains	4,663	2,620
		8,099	**5,970**

		2016	2014/15 (18 Months)
3	**Tax on profit/loss for the year**		
	Current tax for the year	5,456	5,507
	Deferred tax for the year	112	211
		5,568	**5,718**

Notes to the Financial Statements

4 Intangible assets

	Software
	kDKK
Cost at 1 January 2016	13
Cost at 31 December 2016	13
Impairment losses and amortisation at 1 January 2016	11
Amortisation for the year	2
Impairment losses and amortisation at 31 December 2016	13
Carrying amount at 31 December 2016	**0**

5 Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment
	kDKK	kDKK
Cost at 1 January 2016	276	27
Cost at 31 December 2016	276	27
Impairment losses and depreciation at 1 January 2016	253	10
Depreciation for the year	6	5
Impairment losses and depreciation at 31 December 2016	259	15
Carrying amount at 31 December 2016	**17**	**12**
Depreciated over	5 years	3-5 years

	2016	2014/15 (18 Months)
	kDKK	kDKK
Depreciation and impairment of property, plant and equipment are recognised in the following items:		
Distribution expenses	11	64
	11	**64**

Notes to the Financial Statements

6 Investments in subsidiaries

	2016	2015
	kDKK	kDKK
Cost at 1 January 2016	21,622	21,622
Cost at 31 December 2016	21,622	21,622
Value adjustments at 1 January 2016	-3,854	-3,766
Exchange adjustment	-56	-23
Net profit/loss for the year	-1,388	-65
Value adjustments at 31 December 2016	-5,298	-3,854
Carrying amount at 31 December 2016	**16,324**	**17,768**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
TC Works Soft- und Hardware GmbH	Tyskland	EUR 150.000	100%
TC Electronic Deutschland GmbH	Tyskland	EUR 26.000	100%

Notes to the Financial Statements

		2016	2015
		kDKK	kDKK
7	**Inventories**		
	Raw materials and consumables	2	0
	Finished goods and goods for resale	114	0
		116	**0**
8	**Deferred tax asset**		
	Deferred tax asset at 1 January 2016	290	502
	Amounts recognised in the income statement for the year	-112	-211
	Amounts recognised in equity for the year	0	-1
	Deferred tax asset at 31 December 2016	**178**	**290**

9 Prepayments

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

10 Distribution of profit

Retained earnings	17,739	18,549
	17,739	**18,549**

Notes to the Financial Statements

		2016	2015
		kDKK	kDKK
11	**Contingent assets, liabilities and other financial obligations**		
	Charges and security		
	The following assets have been placed as security with mortgage credit institutes:		
	As security for the Group's balance with Jyske Bank the Company has given floating charge of DKK 100,000k as security secured on unsecured claims, inventories, operating equipment and rights with a carrying amount of DKK 28.041k at 31 December 2016. Debt to credit institutions is DKK 0 at 31 December 2016.	100,000	100,000
	Rental and lease obligations		
	Lease obligations under operating leases. Total future lease payments:		
	Within 1 year	248	246
	Between 1 and 5 years	106	120
		354	**366**

Other contingent liabilities

The Company is jointly and severally liable for corporate income tax according to the Danish joint taxation in the group.

12 Related parties

	Basis
Controlling interest	
The TC Group A/S	Controlling shareholder
MUSIC Group Limited, Bermuda	Controlling shareholder of The TC Group A/S
DTOS Trustees, Ltd., Mauritius	Controlling shareholder of MUSIC Group Limited

Notes to the Financial Statements

12 Related parties (continued)

Transactions

	2016
	kDKK
Transactions with other related parties	
Handling fee paid to other related parties	2.451
Purchases of electronic equipment from related parties	289.756
Purchase of management services from parent	7.487
Outstanding balances arising from sales/purchases of goods and services	
The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:	
Current receivables (sale of goods and services)	77.531
Current payables (purchases of goods and services)	84.976
Loans to other related parties	
Interest income on payable	3.185
Interest expenses	29

Terms and conditions

The interest rate on loans between related parties was 4% during the year while loans totalling kDKK 7.991 to a company in Bermuda did not carry any interests.

Consolidated Financial Statements

The Company is included ind the Consolidated Financial Statements of The TC Group A/S.

Name	Place of registered office
The TC Group A/S	Aarhus, Denmark

Notes to the Financial Statements

13 Accounting Policies

The Annual Report of MUSIC Group Commercial DK A/S for 2016 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 2016 are presented in kDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of The TC Group A/S, 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 The TC Group A/S, 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.

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the

Notes to the Financial Statements

13 Accounting Policies (continued)

balance sheet date.

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

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses 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 transaction date rates are recognised in financial income and expenses in the income statement.

Income Statement

Gross profit/loss

With reference to section 81 and 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

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

Notes to the Financial Statements

13 Accounting Policies (continued)

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of tangible assets.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses etc.

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

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 changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with other Danish companies in the group. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Notes to the Financial Statements

13 Accounting Policies (continued)

Balance Sheet

Intangible assets

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding years.

Property, plant and equipment

Property, plant and equipment 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:

Production buildings	5	years
Other buildings	3-5	years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 12,900 are expensed in the year of acquisition.

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, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item“Investments in subsidiaries” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to

Notes to the Financial Statements

13 Accounting Policies (continued)

“Reserve for net revaluation under the equity method“ under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Current asset investments

Current asset investments, which consist of listed bonds and shares, are measured at their fair values at the balance sheet date. Fair value is determined on the basis of the latest quoted market price.

Investments which are not traded in an active market are measured at the lower of cost and recoverable amount.

Prepayments

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

Notes to the Financial Statements

13 Accounting Policies (continued)

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes 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 within the same legal tax entity.

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. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

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

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

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

Financial Highlights

Explanation of financial ratios

Notes to the Financial Statements

13 Accounting Policies (continued)

Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$