

DPA MICROPHONES A/S

Gydevang 42 - 44

3450 Allerød

Central Business Registration

No 15912200

Annual report 2019

The Annual General Meeting adopted the annual report on 19.05.2020

Chairman of the General Meeting

Name: Ann Frølund Winther

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Entity details

Entity

DPA MICROPHONES A/S
Gydevang 42 - 44
3450 Allerød

Central Business Registration No (CVR): 15912200
Registered in: Allerød
Financial year: 01.01.2019 - 31.12.2019

Board of Directors

Fausto Incerti
Anna Grimstrup Præstholt
Finn Klingberg Mortensen
Arturo Vicari
Karl Kristian Nielsen
Fabio Ciccarelli
Nicola Iorio
Mauro Macchiaverna

Executive Board

Karl Kristian Nielsen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 København C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of DPA MICROPHONES A/S for the financial year 01.01.2019 - 31.12.2019.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the Consolidated financial statements and the parent financial statements give a true and fair view of the Group and the Entity's financial position at 31.12.2019 and of the results of their operations and cash flows for the group for the financial year 01.01.2019 - 31.12.2019.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Allerød, 19.05.2020

Executive Board

Karl Kristian Nielsen

Board of Directors

Fausto Incerti

Anna Grimstrup Præstholt

Finn Klingberg Mortensen

Arturo Vicari

Karl Kristian Nielsen

Fabio Ciccarelli

Nicola Iorio

Mauro Macchiaverna

Independent auditor's report

To the shareholders of DPA MICROPHONES A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of DPA MICROPHONES A/S for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2019, and of the results of their operations and the consolidated cash flows for the financial year 01.01.2019 - 31.12.2019 in accordance with the Danish Financial Statements Act.

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 consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of 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.

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent 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 consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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

Independent auditor's report

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 consolidated financial statements and these parent 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 consolidated financial statements and the parent 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 Group's and the Parent'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 consolidated financial statements and the parent 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 Group's and the Parent'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 consolidated financial statements and the parent 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 Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 19.05.2020

Deloitte

Statsautoriseret Revisionspartnerselskab

Central Business Registration No (CVR) 33963556

Flemming Larsen
State Authorised Public Accountant
Identification No (MNE) mne27790

Management commentary

| | 2019 DKK'000 | 2018 DKK'000 | 2017/2018 DKK'000 | 2016/2017 DKK'000 | 2015/2016 DKK'000 |
|---|-------------------------------|-------------------------------|------------------------------------|------------------------------------|------------------------------------|
| Financial highlights | | | | | |
| Key figures | | | | | |
| Gross profit | 131.848 | 88.094 | 118.502 | 106.734 | 103.604 |
| Operating profit/loss | 42.977 | 26.283 | 32.304 | 34.267 | 33.135 |
| Net financials | (12.432) | (1.103) | (3.556) | (1.442) | (2.611) |
| Profit/loss for the year | 19.442 | 19.549 | 22.918 | 24.548 | 23.299 |
| Total assets | 328.414 | 143.514 | 136.318 | 108.578 | 112.000 |
| Investments in property, plant and equipment | 1.441 | 1.102 | 4.324 | 3.242 | 4.984 |
| Equity | 127.149 | 57.208 | 59.446 | 48.966 | 49.152 |
| Average numbers of employees | 196 | 185 | 156 | 174 | 155 |
| Ratios | | | | | |
| Return on equity (%) | 21,1 | 33,5 | 42,3 | 50,0 | 47,4 |
| Equity ratio (%) | 38,7 | 39,9 | 43,6 | 45,1 | 43,9 |

Financial highlights are defined and calculated in accordance with the current version of "Recommendations & Ratios" issued by the Danish Society of Financial Analysts.

In 2019 DPA Microphones has merged with its two parent companies. The merger is effective from January 1, 2019. The group has applied the book-value method, therefore comparative figures has not been changed.

Comparative figures for 2018 comprises 8 months.

| Ratios | Calculation formula | Calculation formula reflects |
|----------------------|--|--|
| Return on equity (%) | $\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$ | The entity's return on capital invested in the entity by the owners. |
| Equity ratio (%) | $\frac{\text{Equity} \times 100}{\text{Total assets}}$ | The financial strength of the entity. |

Management commentary

Primary activities

The Group's main activity is development, production and marketing of microphones and associated equipment to the global professional market for Pro Audio and sound recording.

The Group distributes microphone products and equipment to the North American market through its subsidiary, DPA Microphones Inc., Colorado, US and to the UK market through its subsidiary, Sound Network Ltd., London, UK. The Group also owns subsidiaries in Germany and Hong Kong.

Development in activities and finances

The Group generated a strong development in sales driven by positive market trends and strong product introductions in 2019. Late fiscal year 2018 we launched our innovative and smallest ever microphone capsule in our lavalier and headset range – the subminiature microphone with a diameter of only 3 mm. Major launches in 2019 were our innovative choir microphone and a handheld vocal microphone in the 2000 series. These launches have proven their relevance in the market, and have contributed positively to the Group's business in 2019.

The net profit for the fiscal year was DKK 19.4 million. Total assets as of December 31st 2019 was DKK 328.4 million and the equity was DKK 127.1 million.

Management considered the net profit satisfactory and in line with management's expectations.

Outlook

The COVID-19 outbreak, is expected to have a significant negative impact of our short to mid-term revenues and financial results. As a consequence of this, management has implemented cash savings initiatives that has reduced production capacity and the cost base significantly, including terminating approximately 10% of our employees and working in shifts in the production impacting approximately 50% of our employees for a 3-month period.

Management has been in dialog with our owners as well as our bank connection in Denmark regarding the expected financial impact Covid-19 will have on our business, and have received a credit facility offer from our bank and a revised repayment plan as well as a letter of financial support covering the next 12 months from our owners, RCF Group S.p.A. Management assess that this will ensure going concern.

Management will closely evaluate the development and impact from COVID-19. In case the COVID-19 effect is more severe than management have forecasted, management will take additional actions to mitigate further negative impacts to the extent possible.

Environmental performance

The company adheres to the guidelines listed in the RoHS Directive 2002/95 / EC (Restriction and Hazardous Materials) and the WEEE Directive 2002/95 / EC (Waste from Electrical and Electronic Equipment).

Management commentary

Events after the balance sheet date

The COVID-19 outbreak has escalated in the beginning of 2020, and in March 2020 WHO declared the outbreak for a worldwide pandemic. The outbreak has resulted in several precautions that affect the organization and the day-to-day operations, as well as the Group's suppliers and customers may be affected. Its economic impact cannot be determined at this time.

In addition to the above no significant events have occurred after the balance sheet date to this date, which would influence the evaluation of this annual report

Consolidated income statement for 2019

| | <u>Notes</u> | <u>2019 DKK'000</u> | <u>2018 DKK'000</u> |
|---------------------------------|--------------|-------------------------|-------------------------|
| Gross profit | 2, 3 | 131.848 | 88.094 |
| Distribution costs | 2, 3 | (47.869) | (35.120) |
| Administrative expenses | 2, 3 | (41.002) | (26.691) |
| Operating profit/loss | | 42.977 | 26.283 |
| Other financial income | | 355 | 562 |
| Other financial expenses | 4 | (12.787) | (1.665) |
| Profit/loss before tax | | 30.545 | 25.180 |
| Tax on profit/loss for the year | 5 | (11.103) | (5.631) |
| Profit/loss for the year | 6 | 19.442 | 19.549 |

Consolidated balance sheet at 31.12.2019

| | <u>Notes</u> | <u>2019</u> <u>DKK'000</u> | <u>2018</u> <u>DKK'000</u> |
|--|--------------|-------------------------------|-------------------------------|
| Completed development projects | | 17.466 | 4.486 |
| Acquired intangible assets | | 5.998 | 4.778 |
| Acquired patents | | 800 | 830 |
| Goodwill | | 170.813 | 5.377 |
| Development projects in progress | | 5.608 | 14.891 |
| Intangible assets | 7 | <u>200.685</u> | <u>30.362</u> |
| Land and buildings | | 19.357 | 20.068 |
| Other fixtures and fittings, tools and equipment | | 4.338 | 6.094 |
| Leasehold improvements | | 242 | 537 |
| Property, plant and equipment in progress | | 902 | 598 |
| Property, plant and equipment | 8 | <u>24.839</u> | <u>27.297</u> |
| Other investments | | 31 | 31 |
| Deposits | | 380 | 354 |
| Fixed asset investments | 9 | <u>411</u> | <u>385</u> |
| Fixed assets | | <u>225.935</u> | <u>58.044</u> |
| Raw materials and consumables | | 12.283 | 11.989 |
| Work in progress | | 18.256 | 18.673 |
| Manufactured goods and goods for resale | | 12.088 | 9.648 |
| Inventories | | <u>42.627</u> | <u>40.310</u> |
| Trade receivables | | 26.790 | 25.786 |
| Other receivables | | 38 | 1.517 |
| Income tax receivable | | 0 | 527 |
| Prepayments | 10 | 1.490 | 1.970 |
| Receivables | | <u>28.318</u> | <u>29.800</u> |
| Cash | | <u>31.534</u> | <u>15.360</u> |
| Current assets | | <u>102.479</u> | <u>85.470</u> |
| Assets | | <u>328.414</u> | <u>143.514</u> |

Consolidated balance sheet at 31.12.2019

| | <u>Notes</u> | <u>2019 DKK'000</u> | <u>2018 DKK'000</u> |
|--|--------------|-------------------------|-------------------------|
| Contributed capital | | 1.050 | 1.040 |
| Reserve for development expenditure | | 17.038 | 13.102 |
| Retained earnings | | 109.061 | 43.066 |
| Equity | | 127.149 | 57.208 |
| Deferred tax | 11 | 5.953 | 5.574 |
| Other provisions | 12 | 2.050 | 1.900 |
| Provisions | | 8.003 | 7.474 |
| Payables to shareholders and management | 13 | 139.549 | 0 |
| Non-current liabilities other than provisions | 14 | 139.549 | 0 |
| Current portion of long-term liabilities other than provisions | 14 | 7.470 | 20.371 |
| Bank loans | | 323 | 5.882 |
| Trade payables | | 11.960 | 12.227 |
| Payables to group enterprises | | 0 | 11.978 |
| Payables to shareholders and management | | 1.589 | 0 |
| Income tax payable | | 12.262 | 8.809 |
| Joint taxation contribution payable | | 0 | 1.579 |
| Other payables | | 20.109 | 17.986 |
| Current liabilities other than provisions | | 53.713 | 78.832 |
| Liabilities other than provisions | | 193.262 | 78.832 |
| Equity and liabilities | | 328.414 | 143.514 |
| Events after the balance sheet date | 1 | | |
| Unrecognised rental and lease commitments | 16 | | |
| Assets charged and collateral | 17 | | |
| Group relations | 18 | | |
| Subsidiaries | 19 | | |

Consolidated statement of changes in equity for 2019

| | Contributed capital DKK'000 | Reserve for development expenditure DKK'000 | Retained earnings DKK'000 | Total DKK'000 |
|---|--|--|--|--------------------------|
| Equity beginning of year | 1.040 | 13.102 | 43.066 | 57.208 |
| Effect of mergers and business combinations | 0 | 0 | 47.097 | 47.097 |
| Increase of capital | 10 | 0 | 0 | 10 |
| Exchange rate adjustments | 0 | 0 | 621 | 621 |
| Value adjustments | 0 | 0 | (104) | (104) |
| Other entries on equity | 0 | 0 | 2.852 | 2.852 |
| Tax of entries on equity | 0 | 0 | 23 | 23 |
| Transfer to reserves | 0 | 3.936 | (3.936) | 0 |
| Profit/loss for the year | 0 | 0 | 19.442 | 19.442 |
| Equity end of year | 1.050 | 17.038 | 109.061 | 127.149 |

Other entries on equity comprises settlement of interest swap as part of the groups refinancing. The fair-value as per the settlement date is therefore recognized in the equity with offset in the P&L. After the settlement the group does not engage in derivative financial instruments.

Consolidated cash flow statement for 2019

| | <u>Notes</u> | <u>2019</u> <u>DKK'000</u> | <u>2018</u> <u>DKK'000</u> |
|--|--------------|-------------------------------|-------------------------------|
| Operating profit/loss | | 42.977 | 26.283 |
| Amortisation, depreciation and impairment losses | | 21.471 | 7.997 |
| Other provisions | | 150 | 1.200 |
| Working capital changes | 15 | 1.358 | (6.100) |
| Cash flow from ordinary operating activities | | 65.956 | 29.380 |
| Financial income received | | 352 | 562 |
| Financial expenses paid | | (9.532) | (1.655) |
| Income taxes refunded/(paid) | | (4.991) | (6.264) |
| Cash flows from operating activities | | 51.785 | 22.023 |
| Acquisition etc of intangible assets | | (9.405) | (10.020) |
| Acquisition etc of property, plant and equipment | | (1.441) | (1.102) |
| Cash flows from investing activities | | (10.846) | (11.122) |
| Loans raised | | 170.896 | 0 |
| Repayments of loans etc | | (189.780) | (1.783) |
| Dividend paid | | 0 | (9.640) |
| Cash increase of capital | | 1 | 0 |
| Cash flows from financing activities | | (18.883) | (11.423) |
| Increase/decrease in cash and cash equivalents | | 22.056 | (522) |
| Cash and cash equivalents beginning of year | | 9.478 | 10.000 |
| Cash and cash equivalents end of year | | 31.534 | 9.478 |
| Cash and cash equivalents at year-end are composed of: | | | |
| Cash | | 31.534 | 15.360 |
| Short-term debt to banks | | 0 | (5.882) |
| Cash and cash equivalents end of year | | 31.534 | 9.478 |

Notes to consolidated financial statements

1. Events after the balance sheet date

The COVID-19 outbreak, is expected to have a significant negative impact of our short to mid-term revenues and financial results. As a consequence of this, management has implemented cash savings initiatives that has reduced production capacity and the cost base significantly, including terminating approximately 10% of our employees and working in shifts in production impacting approximately 50% of our employees for a 3-month period.

Management has been in dialog with our owners as well as our bank connection in Denmark regarding the expected financial impact Covid-19 will have on our business, and have received a credit facility offer from our bank and a revised repayment plan as well as a letter of financially support covering the next 12 months from our owners, RCF Group S.p.A. Management assess that this will ensure going concern.

| | 2019 DKK'000 | 2018 DKK'000 |
|--|--|--|
| 2. Staff costs | | |
| Wages and salaries | 91.884 | 65.300 |
| Pension costs | 7.606 | 4.750 |
| Other social security costs | 5.282 | 1.733 |
| | 104.772 | 71.783 |
| | | |
| Average number of employees | 196 | 185 |
| | | |
| | Remunera- tion of manage- ment 2019 DKK'000 | Remunera- tion of manage- ment 2018 DKK'000 |
| Total amount for management categories | 4.242 | 4.890 |
| | 4.242 | 4.890 |

Special incentive programmes

Warrants have been issued to members of the board and the Management, which entitles the holders to buy shares in the company for a nominal value of DKK 1. All warrants has been exercised as of January 31st 2019 following the sales of the DPA group to RCF-Group S.p.A. The total number of issued warrants are 0 at December 31st 2019.

A part of the occurred staff costs has been capitalized under development projects and as inventories. The capitalized costs on inventories are reduced when products are sold and then accounted for as cost of goods sold. Capitalized costs for development projects amounts to 5.986 TDKK.

Notes to consolidated financial statements

| | 2019 DKK'000 | 2018 DKK'000 |
|--|-------------------------------|-------------------------------|
| 3. Depreciation, amortisation and impairment losses | | |
| Amortisation of intangible assets | 16.671 | 2.676 |
| Impairment losses on intangible assets | 848 | 2.194 |
| Depreciation on property, plant and equipment | 3.952 | 3.127 |
| | 21.471 | 7.997 |
| | | |
| | 2019 DKK'000 | 2018 DKK'000 |
| 4. Other financial expenses | | |
| Financial expenses from group enterprises | 6.784 | 109 |
| Other interest expenses | 5.043 | 1.222 |
| Exchange rate adjustments | 487 | 262 |
| Other financial expenses | 473 | 72 |
| | 12.787 | 1.665 |
| | | |
| | 2019 DKK'000 | 2018 DKK'000 |
| 5. Tax on profit/loss for the year | | |
| Current tax | 10.318 | 4.953 |
| Change in deferred tax | 691 | 638 |
| Adjustment concerning previous years | 94 | 40 |
| | 11.103 | 5.631 |
| | | |
| | 2019 DKK'000 | 2018 DKK'000 |
| 6. Proposed distribution of profit/loss | | |
| Retained earnings | 19.442 | 19.549 |
| | 19.442 | 19.549 |

Notes to consolidated financial statements

| | Completed develop- ment projects DKK'000 | Acquired intangible assets DKK'000 | Acquired patents DKK'000 | Goodwill DKK'000 |
|---|---|---|---|---|
| 7. Intangible assets | | | | |
| Cost beginning of year | 15.687 | 5.212 | 1.423 | 6.030 |
| Addition through business combinations etc | 0 | 0 | 0 | 177.712 |
| Transfers | 17.547 | 0 | 0 | 0 |
| Additions | 0 | 1.741 | 125 | 0 |
| Cost end of year | 33.234 | 6.953 | 1.548 | 183.742 |
| Amortisation and impairment losses beginning of year | (11.201) | (434) | (593) | (653) |
| Impairment losses for the year | (848) | 0 | 0 | 0 |
| Amortisation for the year | (3.719) | (521) | (155) | (12.276) |
| Amortisation and impairment losses end of year | (15.768) | (955) | (748) | (12.929) |
| Carrying amount end of year | 17.466 | 5.998 | 800 | 170.813 |
| | | | | Develop- ment projects in progress DKK'000 |
| 7. Intangible assets | | | | |
| Cost beginning of year | | | | 16.293 |
| Addition through business combinations etc | | | | 0 |
| Transfers | | | | (17.547) |
| Additions | | | | 8.264 |
| Cost end of year | | | | 7.010 |
| Amortisation and impairment losses beginning of year | | | | (1.402) |
| Impairment losses for the year | | | | 0 |
| Amortisation for the year | | | | 0 |
| Amortisation and impairment losses end of year | | | | (1.402) |
| Carrying amount end of year | | | | 5.608 |
| Development projects | | | | |

As previous years the company has capitalized development cost. The development cost is related to the development of new unique product technology and new products. The development cost is expected to add significant value to the product portfolio.

Notes to consolidated financial statements

The calculation of development costs are based on actual progress in terms of time registrations and costs incurred in the development project. Costs are capitalized as incurred if this relates to the development project. The calculation of progress is based on achieved milestones. The company possess the resources and skills to complete the development.

| | Land and buildings DKK'000 | Other fixtures and fittings, tools and equipment DKK'000 | Leasehold improve- ments DKK'000 | Property, plant and equipment in progress DKK'000 |
|---|---|---|---|--|
| 8. Property, plant and equipment | | | | |
| Cost beginning of year | 28.124 | 35.290 | 1.774 | 598 |
| Exchange rate adjustments | 0 | 65 | 0 | 0 |
| Transfers | 0 | 168 | 0 | (168) |
| Additions | 24 | 945 | 0 | 472 |
| Cost end of year | 28.148 | 36.468 | 1.774 | 902 |
| Depreciation and impairment losses beginning of year | (8.056) | (29.196) | (1.237) | 0 |
| Exchange rate adjustments | 0 | (12) | 0 | 0 |
| Depreciation for the year | (735) | (2.922) | (295) | 0 |
| Depreciation and impairment losses end of year | (8.791) | (32.130) | (1.532) | 0 |
| Carrying amount end of year | 19.357 | 4.338 | 242 | 902 |
| 9. Fixed asset investments | | | | |
| | | | Other investments DKK'000 | Deposits DKK'000 |
| Cost beginning of year | | | 31 | 354 |
| Exchange rate adjustments | | | 0 | 12 |
| Additions | | | 0 | 14 |
| Cost end of year | | | 31 | 380 |
| Carrying amount end of year | | | 31 | 380 |
| 10. Prepayments | | | | |

Prepayments under assets consists of costs incurred which relates to future accounting periods.

Notes to consolidated financial statements

| | 2019 DKK'000 | 2018 DKK'000 |
|------------------------------------|-------------------------------|-------------------------------|
| 11. Deferred tax | | |
| Intangible assets | 5.337 | 4.615 |
| Property, plant and equipment | 1.751 | 827 |
| Inventories | (617) | 1.025 |
| Receivables | (67) | (220) |
| Provisions | (451) | (418) |
| Liabilities other than provisions | 0 | (255) |
| | 5.953 | 5.574 |
| Changes during the year | | |
| Beginning of year | 5.574 | |
| Recognised in the income statement | 691 | |
| Recognised directly in equity | (312) | |
| End of year | 5.953 | |

12. Other provisions

Other provisions consist of DPA Microphones A/S' liability to re-establish rented premises of DKK 700 thousand and provision to warranties for sold goods amounting to DKK 1.350 thousand. The provision to warranty claims is calculated as a percentage of the revenue. The percentage is based on historical key figures for annual warranty claims and cost associated with the claims.

13. Payables to shareholders and management

Loan is unsecured and provided by the Company's shareholder and installements is paid each year until it is fully repaid in 2025. Interest is paid continuously over the loan period.

| | Due within 12 months 2019 DKK'000 | Due within 12 months 2018 DKK'000 | Due after more than 12 months 2019 DKK'000 | Outstanding after 5 years DKK'000 |
|--|--|--|---|--|
| 14. Liabilities other than provisions | | | | |
| Mortgage debt | 0 | 20.371 | 0 | 0 |
| Payables to shareholders and management | 7.470 | 0 | 139.549 | 37.349 |
| | 7.470 | 20.371 | 139.549 | 37.349 |

Notes to consolidated financial statements

| | 2019 DKK'000 | 2018 DKK'000 |
|---|-------------------------------|-------------------------------|
| 15. Change in working capital | | |
| Increase/decrease in inventories | (2.317) | (6.798) |
| Increase/decrease in receivables | 2.193 | 4.862 |
| Increase/decrease in trade payables etc | 944 | (4.350) |
| Other changes | 538 | 186 |
| | 1.358 | (6.100) |

| | 2019 DKK'000 | 2018 DKK'000 |
|--|-------------------------------|-------------------------------|
| 16. Unrecognised rental and lease commitments | | |
| Liabilities under rental or lease agreements until maturity in total | 4.885 | 8.240 |

17. Assets charged and collateral

Cash of DKK 820 thousand is restricted as security for rental commitments. Beside this, no other collateral or asset charges are committed.

18. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the largest group:
RCF Group S.p.A, Reggio Emilia, Italy

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
RCF Group S.p.A, Reggio Emilia, Italy

The group financial statement can be collected from RCF Group S.p.A.

| | Registered in | Corpo- rate form | Equity inte- rest % |
|-------------------------|-------------------------------|---------------------------------|--|
| 19. Subsidiaries | | | |
| DPA Microphones Inc. | Colorado, US | Inc. | 100,0 |
| DPA Microphones Ltd. | Wanchai, Hong Kong | Ltd | 100,0 |
| DPA Microphones GmbH. | Frankfurt am Main, Germany | GmbH. | 100,0 |
| Sound Network Ltd. | London, UK | Ltd. | 100,0 |

Parent income statement for 2019

| | <u>Notes</u> | <u>2019 DKK'000</u> | <u>2018 DKK'000</u> |
|--|--------------|-------------------------|-------------------------|
| Gross profit | 2, 3 | 99.094 | 63.596 |
| Distribution costs | 2, 3 | (27.738) | (17.923) |
| Administrative expenses | 2, 3 | (30.911) | (21.097) |
| Operating profit/loss | | 40.445 | 24.576 |
| Income from investments in group enterprises | | 1.145 | 1.122 |
| Other financial income | | 262 | 594 |
| Other financial expenses | 4 | (12.412) | (1.440) |
| Profit/loss before tax | | 29.440 | 24.852 |
| Tax on profit/loss for the year | 5 | (9.998) | (5.303) |
| Profit/loss for the year | 6 | 19.442 | 19.549 |

Parent balance sheet at 31.12.2019

| | <u>Notes</u> | <u>2019</u> <u>DKK'000</u> | <u>2018</u> <u>DKK'000</u> |
|--|--------------|-------------------------------|-------------------------------|
| Completed development projects | | 17.467 | 4.487 |
| Acquired intangible assets | | 5.998 | 4.778 |
| Acquired trademarks | | 800 | 830 |
| Goodwill | | 166.039 | 0 |
| Development projects in progress | | 5.608 | 14.891 |
| Intangible assets | 7 | 195.912 | 24.986 |
| Land and buildings | | 19.357 | 20.068 |
| Other fixtures and fittings, tools and equipment | | 3.818 | 5.580 |
| Leasehold improvements | | 242 | 537 |
| Property, plant and equipment in progress | | 902 | 598 |
| Property, plant and equipment | 8 | 24.319 | 26.783 |
| Investments in group enterprises | | 21.812 | 20.046 |
| Other investments | | 31 | 31 |
| Deposits | | 79 | 65 |
| Fixed asset investments | 9 | 21.922 | 20.142 |
| Fixed assets | | 242.153 | 71.911 |
| Raw materials and consumables | | 12.283 | 11.992 |
| Work in progress | | 18.256 | 18.673 |
| Manufactured goods and goods for resale | | 6.130 | 4.030 |
| Inventories | | 36.669 | 34.695 |
| Trade receivables | | 16.592 | 14.758 |
| Receivables from group enterprises | | 11.878 | 6.929 |
| Other receivables | | 1.072 | 1.311 |
| Prepayments | 10 | 671 | 1.121 |
| Receivables | | 30.213 | 24.119 |
| Cash | | 17.522 | 10.866 |
| Current assets | | 84.404 | 69.680 |
| Assets | | 326.557 | 141.591 |

Parent balance sheet at 31.12.2019

| | <u>Notes</u> | <u>2019 DKK'000</u> | <u>2018 DKK'000</u> |
|--|--------------|-------------------------|-------------------------|
| Contributed capital | 11 | 1.050 | 1.040 |
| Reserve for net revaluation according to the equity method | | 8.711 | 8.090 |
| Reserve for development expenditure | | 17.037 | 13.101 |
| Retained earnings | | 100.351 | 34.977 |
| Equity | | <u>127.149</u> | <u>57.208</u> |
| Deferred tax | 12 | 7.739 | 6.841 |
| Other provisions | 13 | 2.050 | 1.900 |
| Provisions | | <u>9.789</u> | <u>8.741</u> |
| Payables to shareholders and management | 14 | 139.549 | 0 |
| Non-current liabilities other than provisions | 15 | <u>139.549</u> | <u>0</u> |
| Current portion of long-term liabilities other than provisions | 15 | 7.470 | 20.371 |
| Bank loans | | 290 | 5.882 |
| Trade payables | | 12.291 | 12.173 |
| Payables to group enterprises | | 5 | 12.097 |
| Payables to shareholders and management | | 1.589 | 0 |
| Income tax payable | | 12.246 | 8.690 |
| Joint taxation contribution payable | | 0 | 1.571 |
| Other payables | | 16.179 | 14.858 |
| Current liabilities other than provisions | | <u>50.070</u> | <u>75.642</u> |
| Liabilities other than provisions | | <u>189.619</u> | <u>75.642</u> |
| Equity and liabilities | | <u>326.557</u> | <u>141.591</u> |
| Events after the balance sheet date | 1 | | |
| Unrecognised rental and lease commitments | 16 | | |
| Assets charged and collateral | 17 | | |
| Related parties with controlling interest | 18 | | |
| Transactions with related parties | 19 | | |

Parent statement of changes in equity for 2019

| | Contributed capital DKK'000 | Reserve for net revaluation according to the equity method DKK'000 | Reserve for development expenditure DKK'000 |
|---|--|---|--|
| Equity beginning of year | 1.040 | 8.090 | 13.101 |
| Effect of mergers and business combinations | 10 | 0 | 0 |
| Exchange rate adjustments | 0 | 621 | 0 |
| Other entries on equity | 0 | 0 | 0 |
| Tax of entries on equity | 0 | 0 | 0 |
| Transfer to reserves | 0 | 0 | 3.936 |
| Profit/loss for the year | 0 | 0 | 0 |
| Equity end of year | 1.050 | 8.711 | 17.037 |

| | Retained earnings DKK'000 | Total DKK'000 |
|---|--|--------------------------|
| Equity beginning of year | 34.977 | 57.208 |
| Effect of mergers and business combinations | 47.097 | 47.107 |
| Exchange rate adjustments | 0 | 621 |
| Other entries on equity | 2.748 | 2.748 |
| Tax of entries on equity | 23 | 23 |
| Transfer to reserves | (3.936) | 0 |
| Profit/loss for the year | 19.442 | 19.442 |
| Equity end of year | 100.351 | 127.149 |

Other entries on equity comprises settlement of interest swap as part of the companys refinancing. The fair-value as per the settlement date is therefore recognized in the equity with offset in the P&L. After the settlement the company does not engage in derivative financial instruments.

Notes to parent financial statements

1. Events after the balance sheet date

The COVID-19 outbreak, is expected to have a significant negative impact of our short to mid-term revenues and financial results. As a consequence of this, management has implemented cash savings initiatives that has reduced production capacity and the cost base significantly, including terminating approximately 10% of our employees and working in shifts in production impacting approximately 50% of our employees for a 3-month period.

Management has been in dialog with our owners as well as our bank connection in Denmark regarding the expected financial impact Covid-19 will have on our business, and have received a credit facility offer from our bank and a revised repayment plan as well as a letter of financially support covering the next 12 months from our owners, RCF Group S.p.A. Management assess that this will ensure going concern.

| | 2019 DKK'000 | 2018 DKK'000 |
|--|--|--|
| 2. Staff costs | | |
| Wages and salaries | 81.248 | 51.157 |
| Pension costs | 7.175 | 4.477 |
| Other social security costs | 1.193 | 353 |
| | 89.616 | 55.987 |
| | | |
| Average number of employees | 164 | 152 |
| | | |
| | Remunera- tion of manage- ment 2019 DKK'000 | Remunera- tion of manage- ment 2018 DKK'000 |
| Total amount for management categories | 4.242 | 4.890 |
| | 4.242 | 4.890 |

Special incentive programmes

Warrants have been issued to members of the board and the Management, which entitles the holders to buy shares in the company for a nominal value of DKK 1. All warrants has been exercised as of January 31st 2019 following the sales of the DPA group to RCF-Group S.p.A. The total number of issued warrants are 0 at December 31st 2019.

A part of the occurred staff costs has been capitalized under development projects and as inventories. The capitalized costs on inventories are reduced when products are sold and then accounted for as cost of goods sold. Capitalized costs for development projects amounts to 5.986 TDKK.

Notes to parent financial statements

| | 2019 DKK'000 | 2018 DKK'000 |
|---|-------------------------------|-------------------------------|
| 3. Depreciation, amortisation and impairment losses | | |
| Amortisation of intangible assets | 16.068 | 2.275 |
| Impairment losses on intangible assets | 848 | 2.193 |
| Depreciation on property, plant and equipment | 3.694 | 2.905 |
| | 20.610 | 7.373 |
| | | |
| | 2019 DKK'000 | 2018 DKK'000 |
| 4. Other financial expenses | | |
| Financial expenses from group enterprises | 6.784 | 109 |
| Other interest expenses | 4.826 | 697 |
| Exchange rate adjustments | 596 | 242 |
| Other financial expenses | 206 | 392 |
| | 12.412 | 1.440 |
| | | |
| | 2019 DKK'000 | 2018 DKK'000 |
| 5. Tax on profit/loss for the year | | |
| Current tax | 9.227 | 4.658 |
| Change in deferred tax | 771 | 605 |
| Adjustment concerning previous years | 0 | 40 |
| | 9.998 | 5.303 |
| | | |
| | 2019 DKK'000 | 2018 DKK'000 |
| 6. Proposed distribution of profit/loss | | |
| Transferred to reserve for net revaluation according to the equity method | 0 | 1.122 |
| Retained earnings | 19.442 | 18.427 |
| | 19.442 | 19.549 |

Notes to parent financial statements

| | Completed develop- ment projects DKK'000 | Acquired intangible assets DKK'000 | Acquired trademarks DKK'000 | Goodwill DKK'000 |
|---|---|---|--|---|
| 7. Intangible assets | | | | |
| Cost beginning of year | 15.687 | 5.212 | 1.423 | 0 |
| Addition through business combinations etc | 0 | 0 | 0 | 177.712 |
| Transfers | 17.547 | 0 | 0 | 0 |
| Additions | 0 | 1.741 | 125 | 0 |
| Cost end of year | 33.234 | 6.953 | 1.548 | 177.712 |
| Amortisation and impairment losses beginning of year | (11.200) | (434) | (593) | 0 |
| Impairment losses for the year | (848) | 0 | 0 | 0 |
| Amortisation for the year | (3.719) | (521) | (155) | (11.673) |
| Amortisation and impairment losses end of year | (15.767) | (955) | (748) | (11.673) |
| Carrying amount end of year | 17.467 | 5.998 | 800 | 166.039 |
| | | | | Develop- ment projects in progress DKK'000 |
| 7. Intangible assets | | | | |
| Cost beginning of year | | | | 16.293 |
| Addition through business combinations etc | | | | 0 |
| Transfers | | | | (17.547) |
| Additions | | | | 8.264 |
| Cost end of year | | | | 7.010 |
| Amortisation and impairment losses beginning of year | | | | (1.402) |
| Impairment losses for the year | | | | 0 |
| Amortisation for the year | | | | 0 |
| Amortisation and impairment losses end of year | | | | (1.402) |
| Carrying amount end of year | | | | 5.608 |
| Development projects | | | | |

As previous years the company has capitalized development cost. The development cost is related to the development of new unique product technology and new products. The development cost is expected to add

Notes to parent financial statements

significant value to the product portfolio.

The calculation of development costs are based on actual progress in terms of time registrations and costs incurred in the development project. Costs are capitalized as incurred if this relates to the development project. The calculation of progress is based on achieved milestones. The company possess the resources and skills to complete the development.

| | Land and buildings DKK'000 | Other fixtures and fittings, tools and equipment DKK'000 | Leasehold improve- ments DKK'000 | Property, plant and equipment in progress DKK'000 |
|---|---|---|---|--|
| 8. Property, plant and equipment | | | | |
| Cost beginning of year | 28.124 | 33.342 | 1.774 | 598 |
| Transfers | 0 | 168 | 0 | (168) |
| Additions | 24 | 734 | 0 | 472 |
| Cost end of year | 28.148 | 34.244 | 1.774 | 902 |
| Depreciation and impairment losses beginning of year | (8.056) | (27.762) | (1.237) | 0 |
| Depreciation for the year | (735) | (2.664) | (295) | 0 |
| Depreciation and impairment losses end of year | (8.791) | (30.426) | (1.532) | 0 |
| Carrying amount end of year | 19.357 | 3.818 | 242 | 902 |

Notes to parent financial statements

| | Invest- ments in group enterprises DKK'000 | Other investments DKK'000 | Deposits DKK'000 |
|------------------------------------|---|--|-----------------------------|
| 9. Fixed asset investments | | | |
| Cost beginning of year | 11.957 | 31 | 65 |
| Additions | 0 | 0 | 14 |
| Cost end of year | 11.957 | 31 | 79 |
| Revaluations beginning of year | 8.089 | 0 | 0 |
| Exchange rate adjustments | 621 | 0 | 0 |
| Amortisation of goodwill | (603) | 0 | 0 |
| Share of profit/loss for the year | 3.048 | 0 | 0 |
| Adjustment of intra-group profits | (1.300) | 0 | 0 |
| Revaluations end of year | 9.855 | 0 | 0 |
| Carrying amount end of year | 21.812 | 31 | 79 |

A specification of investments in subsidiaries is evident from the notes to the consolidated financial statements.

10. Prepayments

Prepayments under assets consists of costs incurred which relates to future accounting periods.

11. Contributed capital

In the financial year new shares has been issued. New shares totals 100 with a nominal value of DKK 100. The increase in the contributed capital totals DKK 10.000.

Notes to parent financial statements

| | 2019 DKK'000 | 2018 DKK'000 |
|-----------------------------------|-------------------------------|-------------------------------|
| 12. Deferred tax | | |
| Intangible assets | 5.337 | 4.615 |
| Property, plant and equipment | 1.751 | 2.094 |
| Inventories | 1.169 | 1.025 |
| Receivables | (67) | (220) |
| Provisions | (451) | (418) |
| Liabilities other than provisions | 0 | (255) |
| | 7.739 | 6.841 |

Changes during the year

| | |
|------------------------------------|--------------|
| Beginning of year | 6.841 |
| Recognised in the income statement | 1.210 |
| Recognised directly in equity | (312) |
| End of year | 7.739 |

13. Other provisions

Other provisions consist of DPA Microphones A/S' liability to re-establish rented premises of DKK 700 thousand and provision to warranties for sold goods amounting to DKK 1.350 thousand. The provision to warranty claims is calculated as a percentage of the revenue. The percentage is based on historical key figures for annual warranty claims and cost associated with the claims.

14. Payables to shareholders and management

Loan is unsecured and provided by the Company's shareholder and installements is paid each year until it is fully repaid in 2025. Interest is paid continuously over the loan period.

| | Due within 12 months 2019 DKK'000 | Due within 12 months 2018 DKK'000 | Due after more than 12 months 2019 DKK'000 | Outstanding after 5 years DKK'000 |
|--|--|--|---|--|
| 15. Liabilities other than provisions | | | | |
| Mortgage debt | 0 | 20.371 | 0 | 0 |
| Payables to shareholders and management | 7.470 | 0 | 139.549 | 37.349 |
| | 7.470 | 20.371 | 139.549 | 37.349 |

| | 2019 DKK'000 | 2018 DKK'000 |
|--|-------------------------------|-------------------------------|
| 16. Unrecognised rental and lease commitments | | |
| Liabilities under rental or lease agreements until maturity in total | 1.481 | 4.206 |

Notes to parent financial statements

17. Assets charged and collateral

Cash of DKK 820 thousand is restricted as security for rental commitments. Beside this, no other collateral or asset charges are committed.

18. Related parties with controlling interest

RCF Group S.p.A, Reggio Emilia, Italy, holds all shares and holds a significant influence on the company and the group.

19. Transactions with related parties

All transactions with related parties which have not been in accordance with market conditions will be disclosed. There have been no such transactions in the financial year.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year.

During this period, DPA Microphones A/S has merged with its former parent companies RE Microphones ApS and RE Microphones Holding ApS. The merger is effective from 01.01.2019. The method applied is the book-value method, therefore comparative figures remains unchanged.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements

The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements.

Accounting policies

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the acquisition date, with net assets having been calculated at fair value.

Business combinations

The book-value method is applied on acquisition of enterprises, mergers, demergers, contributions of assets and exchanges of shares, etc where the enterprises concerned are controlled by the Parent, under which method the combination is considered completed at the date of acquisition without restatement of comparative figures. Under the book-value method, the acquiree's assets and liabilities are recognised at their carrying amounts, adjusted for any differences in accounting policies and accounting estimates. The difference between the consideration agreed and the carrying amount of the acquiree is recognised in equity.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses.

When recognising foreign subsidiaries that are integral entities, monetary assets and liabilities are translated using the exchange rates at the balance sheet date. Non-monetary assets and liabilities are translated at the exchange rate of the time of acquisition or the time of any subsequent revaluation or writedown. The items of the income statement are translated at the average rates of the months; however, items deriving from non-monetary assets and liabilities are translated using the historical rates applicable to the relevant non-monetary items.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are recognised directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, production costs and other operating income. With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement

Accounting policies

when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Production costs

Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary write-down of inventories.

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory writedowns.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment attached to the distribution process.

Administrative expenses

Administrative expenses comprise costs incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, payables and transactions in foreign currencies.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, payables and transactions in foreign currencies.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Accounting policies

Balance sheet

Goodwill

Goodwill is the positive difference between cost and value in use of assets and liabilities taken over as part of the acquisition. Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. Useful life is determined based on an assessment of whether the amount of goodwill includes intangible resources of a temporary nature that cannot be separated and recognised as separate assets. If it is not possible to estimate the useful life reliably, it is set at 10 years. Useful lives are reassessed on an annual basis. The amortisation periods used are 10-20 years.

Goodwill is written down to the lower of recoverable amount and carrying amount.

Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights.

Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets. Other development costs are recognised as costs in the income statement as incurred. When recognising development projects as intangible assets, an amount equalling the costs incurred is taken to equity under Reserve for development costs that is reduced as the development projects are amortised and written down.

The cost of development projects comprises costs such as salaries that are directly and indirectly attributable to the development projects.

Completed development projects are amortised on a straight-line basis using their estimated useful lives which are determined based on a specific assessment of each development project. If the useful life cannot be estimated reliably, it is fixed at 5 years. For development projects, protected by intellectual property rights, the maximum amortisation period is the remaining duration of the relevant rights.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, but over no more than 10 years.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Land and buildings, plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

Accounting policies

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

| | |
|--|-------------|
| Buildings | 10-50 years |
| Other fixtures and fittings, tools and equipment | 3-5 years |
| Leasehold improvements | 5 years |

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus or minus unrealised intra-group profits or losses.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Other investments

Other investments comprise unlisted equity instruments measured at cost. Unlisted equity instruments are written down to any lower net realisable value.

Inventories

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

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation on of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Financing costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Accounting policies

Cash

Cash comprises cash in hand and bank deposits.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Other provisions

Provisions are recognized when – in consequence of an event occurred before or on the balance sheet date – the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Mortgage debt

At the time of borrowing, mortgage debt to mortgage credit institutions is measured at cost which corresponds to the proceeds received less transaction costs incurred. Mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal repayable amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Income tax receivable or payable

Current tax receivable or payable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Joint taxation contributions receivable or payable

Joint tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Accounting policies

Cash flows from investing activities comprise payments in connection with, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt and payment of dividend.

Cash and cash equivalents comprise cash.