Trackunit A/S

Gasværksvej 24, DK-9000 Aalborg

Annual Report for 1 January - 31 December 2018

CVR No 20 75 01 70

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 7 /5 2019

Thomas Christiansen
Chairman of the General Meeting

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Trackunit A/S for the financial year 1 January - 31 December 2018.

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 2018 of the Company and of the results of the Company operations for 2018.

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.

Aalborg, 7 May 2019

Executive Board

Jørgen Raguse CEO	Peter Vekslund CFO

Board of Directors

Frank Cohen Chairman	Lars Dybkjær	Gunnar Evensen
Michael Specht Bruun	Steen Lomholt-Thomsen	

Independent Auditor's Report

To the Shareholder of Trackunit 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 2018 and of the results of the Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Trackunit A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the Financial Statements").

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

Statement on Management's Review
Management is responsible for Management's Review.

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

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

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

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

Independent Auditor's Report

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

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

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

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

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

Independent Auditor's Report

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the Financial Statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Aalborg, 7 May 2019
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Søren Ørjan Jensen
State Authorised Public Accountant
mne33226

Company Information

The Company	Trackunit A/S Gasværksvej 24 DK-9000 Aalborg Telephone: + 45 96 73 74 00 Website: www.trackunit.com CVR No: 20 75 01 70 Financial period: 1 January - 31 December Municipality of reg. office: Aalborg
Board of Directors	Frank Cohen, Chairman Lars Dybkjær Gunnar Evensen Michael Specht Bruun Steen Lomholt-Thomsen
Executive Board	Jørgen Raguse Peter Vekslund
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Skelagervej 1A DK-9000 Aalborg

Financial Highlights

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

	2018	2017	2016	2015	2014
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	78,729	59,682	57,301	62,064	26,107
Profit/loss before financial income and expenses	11,189	18,120	3,304	-29,848	13,465
Net financials	2,714	-4,899	-2,044	1,850	4,502
Net profit/loss for the year	9,622	7,567	-557	-38,582	14,248
Balance sheet					
Balance sheet total	223,878	133,807	155,276	117,786	40,532
Equity	77,999	69,308	77,028	77,748	21,393
Investment in property, plant and equipment	2,341	3,677	-714	-15,370	87
Number of employees	73	62	59	55	57
Ratios					
Return on assets	5.0%	13.5%	2.1%	-25.3%	33.2%
Solvency ratio	34.8%	51.8%	49.6%	66.0%	52.8%
Return on equity	13.1%	10.3%	-0.7%	-77.8%	80.7%

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.

Management's Review

The Group's principal activities

Trackunit is one of the world's leading telematics companies servicing the off-highway construction and adjacent industries. Trackunit develops and provides innovative solutions for the entire value chain, from machine manufacturers, machine dealers, machine landlords, contractors and operators. Trackunit services its customers directly from its headquarters in Denmark and through subsidiaries in Sweden, Norway, France, Holland, Germany, England and the United States.

Developments in activities and financial affairs

2018 was another year of significant progress with a year on year growth of 69% of new connected machines to the company's SaaS platform. Important milestones from 2018 was signing up 3 OEM partnerships representing significant volume the coming years.

2018 has been considered as a year of investment in talent and technology to secure ongoing growth and to position Trackunit as the leading global telematics company servicing the off-highway construction industry. 30 employees joined Trackunit A/S in 2018.

On the commercial side Trackunit continued to significantly strengthen its organization within Sales and Marketing. To reinforce Trackunit's innovative leadership the Engineering organization was also considerably strengthened.

The financial result for 2018 is considered satisfactory, with 32% year on year growth in gross profit from 60 DKK mill. in 2017 to 79 DKK mill. in 2018. Growth was driven by growth in unit sales and by growth in the subscription base. EBITDA was 23 DKK mill. in 2018 impacted heavily by the buildup in Sales, Marketing and R&D.

The 2017 annual report outlook described 2018 as being a year with continued expectations for high growth rates in sales, as well as heavy investments in strengthening the organization, which would partially offset the positive impact to the net result from the increase in sales activity. Management considers the described outlook from the 2017 annual report to be in line with the events that have occurred in 2018 as described above.

Significant changes in operations and financial matters

In June 2018 Trackunit's UK subsidiary, Trackunit Ltd acquired the leading machine telematics provider in the UK, Satrak UK Ltd, further consolidating the position of Trackunit in the UK.

Unusual conditions that affect recognition and measurement

There are no unusual factors that have affected recognition and measurement of the company's results and status.

Management's Review

Outlook

Management expects continued high growth in 2019, with further growth in subscription revenue and unit sales. For 2019 the management expects an increase in the net result due to higher growth in revenue and gross profit, than in costs, being in the range of 0-20DKK mill.

Significant assumptions and uncertainties

There are no material conditions and uncertainties that affect the company's results and balance sheet.

Risk factors

Activities in foreign countries and hereby earnings, exchange rates and interest rates of various currencies affect cash flows and equity. Adjustment of investments in subsidiaries and associates that are independent entities, are recognized directly in equity. Currency risks related thereto are not hedged. For other exchange risks, the company believes that it will not be relevant from an overall risk and cost perspective.

Development activities

The development activities primarily include development of next generation Trackunit products and services. The company continues to increase development activities of its products and thus customers.

Intellectual capital resources

The company aims to be the market leader within the off-highway telematics business. In order to achieve this goal, the company must be able to serve its customers with products and services that are cutting edge of what technology can offer. Developing, integrating and maintaining especially software services and user platforms to access those services requires a highly skilled workforce. 2018 was a year of significant strengthening of the engineering team, adding 14 highly skilled employees.

In late 2018 the group was audited and followingly obtained the most current ISO quality management system (ISO 9001:2015) in January 2019. The standard certifies high quality processes and management and that development of products and services are customer-driven and aligned with the overall business strategy.

Significant events after the balance sheet date

There are no significant events after the balance sheet date.

Income Statement 1 January - 31 December

	Note	2018	2017
		TDKK	TDKK
Gross profit/loss		**78,729**	**59,682**
Staff expenses	1	-55,443	-31,413
Profit/loss before depreciation		**23,286**	**28,269**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-12,097	-10,149
Profit/loss before financial income and expenses		**11,189**	**18,120**
Income from investments in subsidiaries		4,350	-5,924
Financial income	3	109	1,588
Financial expenses	4	-1,745	-563
Profit/loss before tax		**13,903**	**13,221**
Tax on profit/loss for the year	5	-4,281	-5,654
Net profit/loss for the year		**9,622**	**7,567**

Balance Sheet 31 December

Assets

	Note	2018	2017
		TDKK	TDKK
Completed development projects		15,392	18,015
Goodwill		26,312	30,698
Development projects in progress		4,674	950
Intangible assets	6	**46,378**	**49,663**
Plant and machinery		366	895
Other fixtures and fittings, tools and equipment		3,635	3,535
Property, plant and equipment	7	**4,001**	**4,430**
Investments in subsidiaries	8	11,541	2,155
Deposits	9	983	1,100
Fixed asset investments		**12,524**	**3,255**
Fixed assets		**62,903**	**57,348**
Inventories	10	**1,068**	**1,256**
Trade receivables		18,844	11,735
Receivables from group enterprises		128,100	47,389
Other receivables		7,303	7,471
Prepayments	11	4,040	3,324
Receivables		**158,287**	**69,919**
Cash at bank and in hand		**1,620**	**5,284**
Currents assets		**160,975**	**76,459**
Assets		**223,878**	**133,807**

Balance Sheet 31 December

Liabilities and equity

	Note	2018	2017
		TDKK	TDKK
Share capital		500	500
Reserve for development costs		12,656	10,223
Retained earnings		64,843	58,585
Equity	12	**77,999**	**69,308**
Provision for deferred tax	14	4,101	4,126
Provisions relating to investments in group enterprises		4,091	0
Provisions		**8,192**	**4,126**
Credit institutions		27,672	0
Long-term debt	15	**27,672**	**0**
Credit institutions	15	24,082	21,336
Trade payables		14,386	12,480
Payables to group enterprises		45,773	11,725
Corporation tax payables to group enterprises		4,305	3,491
Other payables	16	10,724	6,973
Deferred income	17	10,745	4,368
Short-term debt		**110,015**	**60,373**
Debt		**137,687**	**60,373**
Liabilities and equity		**223,878**	**133,807**
Distribution of profit	13		
Contingent assets, liabilities and other financial obligations	18		
Related parties	19		
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Statement of Changes in Equity

	Share capital	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	500	10,223	58,585	69,308
Exchange adjustments releting to foreign entitis	0	0	-793	-793
Other equity movements	0	0	-138	-138
Development costs for the year	0	4,711	-4,711	0
Amortisation for the year	0	-2,278	2,278	0
Net profit/loss for the year	0	0	9,622	9,622
Equity at 31 December	**500**	**12,656**	**64,843**	**77,999**

Notes to the Financial Statements

		2018	2017
		TDKK	TDKK
1	**Staff expenses**		
	Wages and salaries	49,223	24,166
	Pensions	3,809	3,759
	Other social security expenses	415	428
	Other staff expenses	1,996	3,060
		55,443	**31,413**
	Including remuneration to the Executive Board and Board of Directors of:		
	Executive Board	2,710	2,293
	Supervisory Board	185	175
		2,895	**2,468**
	Average number of employees	**73**	**62**

		2018	2017
2	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	9,326	8,371
	Depreciation of property, plant and equipment	2,771	1,778
		12,097	**10,149**
3	**Financial income**		
	Other financial income	1,681	16
	Exchange gains	-1,572	1,572
		109	**1,588**
4	**Financial expenses**		
	Other financial expenses	1,745	563
		1,745	**563**

Notes to the Financial Statements

5 Tax on profit/loss for the year

Current tax for the year	4,305	3,491
Deferred tax for the year	-24	2,085
Adjustment of tax concerning previous years	0	78
	4,281	**5,654**

6 Intangible assets

	Completed development projects	Goodwill	Development projects in progress
	TDKK	TDKK	TDKK
Cost at 1 January	26,061	43,856	950
Additions for the year	0	0	6,041
Disposals for the year	-1,696	0	0
Transfers for the year	2,317	0	-2,317
Cost at 31 December	26,682	43,856	4,674
Impairment losses and amortisation at 1 January	8,046	13,158	0
Amortisation for the year	4,940	4,386	0
Reversal of amortisation of disposals for the year	-1,696	0	0
Impairment losses and amortisation at 31 December	11,290	17,544	0
Carrying amount at 31 December	**15,392**	**26,312**	**4,674**

Completed development projects relate to development of products and services that are ready for sale.

Notes to the Financial Statements

7 Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment
	TDKK	TDKK
Cost at 1 January	2,352	4,883
Additions for the year	159	2,182
Cost at 31 December	2,511	7,065
Impairment losses and depreciation at 1 January	1,457	1,348
Depreciation for the year	688	2,082
Impairment losses and depreciation at 31 December	2,145	3,430
Carrying amount at 31 December	**366**	**3,635**

8 Investments in subsidiaries

	2018	2017
	TDKK	TDKK
Cost at 1 January	2,082	2,082
Cost at 31 December	2,082	2,082
Value adjustments at 1 January	-6,311	3,078
Exchange adjustment	-793	-287
Net profit/loss for the year	4,350	-5,924
Dividend to the Parent Company	0	-3,178
Value adjustments at 31 December	-2,754	-6,311
Equity investments with negative net asset value amortised over receivables	8,122	6,384
Equity investments with negative net asset value transferred to provisions	4,091	0
Carrying amount at 31 December	**11,541**	**2,155**

Notes to the Financial Statements

8 Investments in subsidiaries (continued)

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership
M-tec Telematics Oy Ab	Finland	100%
Trackunit GmbH	Germany	100%
Trackunit AS	Norway	100%
Tackunit AB	Sweden	100%
Trackunit SAS	France	100%
Trackunit Ltd	The United Kingdom	100%
Fern Capital Ltd	The United Kingdom	100%
Trackunit Telematics Ltd	The United Kingdom	100%
Trackunit America ApS	Denmark	100%
Trackunit Inc	USA	100%
Trackunit BV	Holland	100%

9 Other fixed asset investments

	Deposits
	TDKK
Cost at 1 January	120
Additions for the year	1,040
Disposals for the year	-177
Cost at 31 December	983
Carrying amount at 31 December	**983**

10 Inventories

	2018	2017
	TDKK	TDKK
Raw materials and consumables	162	480
Finished goods and goods for resale	906	776
	1,068	**1,256**

Notes to the Financial Statements

11 Prepayments

Prepayments amounts to tDKK, 4,040 for 2018 (2017: tDKK 3,324) and consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

12 Equity

The share capital consists of 500,000 shares of a nominal value of TDKK 1. No shares carry any special rights.

13 Distribution of profit

	2018	2017
	TDKK	TDKK
Extraordinary dividend paid	0	15,000
Reserve for net revaluation under the equity method	0	-2,791
Retained earnings	9,622	-4,642
	9,622	**7,567**

14 Provision for deferred tax

	2018	2017
Provision for deferred tax at 1 January	4,126	2,040
Amounts recognised in the income statement for the year	-24	2,086
Provision for deferred tax at 31 December	**4,101**	**4,126**

15 Long-term debt

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

The debt falls due for payment as specified below:

Credit institutions

	2018	2017
Between 1 and 5 years	27,672	0
Long-term part	27,672	0
Other short-term debt to credit institutions	24,082	21,336
	51,754	**21,336**

Notes to the Financial Statements

16 Derivative financial instruments

Derivative financial instruments contracts in the form of forward exchange contracts between GBP and DKK have been concluded. At the balance sheet date, the fair value of derivative financial instruments amounts to:

	2018	2017
	TDKK	TDKK
Liabilities	211	456

17 Deferred income

Deferred income consists of payments received in respect of income in subsequent years. The total deferred income amounts to 10,745 TDKK for 2018 (2017: 4,368 TDKK)

18 Contingent assets, liabilities and other financial obligations

Rental and lease obligations

Lease obligations under operating leases. Total future lease payments:		
Within 1 year	2,595	4,707
Between 1 and 5 years	6,215	4,376
	8,810	**9,083**

Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on the Danish jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of M-tec Holding Danmark ApS, which is the administration company of the joint taxation purposes. Moreover, the Danish group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Willingness has been expressed to support Trackunit America ApS

Notes to the Financial Statements

19 Related parties

	Basis
Controlling interest	
M-tec Danmark ApS	Amaliegade 49, 1. sal, DK-1256 København K

Transactions

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

Consolidated Financial Statements

The Company is included in the Group Financial Statement for the Parent Company.

Name	Place of registered office
M-tec Holding Danmark ApS	Amaliegade 49, 1. sal, DK-1256 København K

Notes to the Financial Statements

20 Accounting Policies

The Annual Report of Trackunit A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Financial Statements for 2018 are presented in TDKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of M-Tec Holding Danmark ApS, 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 M-Tec Holding Danmark ApS, 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.

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.

Notes to the Financial Statements

20 Accounting Policies (continued)

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; however, see the section on hedge accounting.

Income statements of foreign subsidiaries that are separate legal entities are translated at transaction date rates or approximated average exchange rates. Balance sheet items are translated at the exchange rates at the balance sheet date. Exchange adjustments arising on the translation of the opening equity and exchange adjustments arising from the translation of the income statements at the exchange rates at the balance sheet date are recognised directly in equity.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as ”Other receivables” and ”Other payables”, respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting.

Income Statement

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

20 Accounting Policies (continued)

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

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

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, other operating income, expenses for raw materials and consumables and other external expenses.

Staff expenses

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

Amortisation, depreciation and impairment losses

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

Other operating income and expenses

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

Income from investments in subsidiaries

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 are recognised in the income statement at the amounts relating to the financial year.

Notes to the Financial Statements

20 Accounting Policies (continued)

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 wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Development projects, patents and licences

Costs of development projects comprise salaries, amortisation and other expenses directly or indirectly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount. An amount corresponding to the recognised development costs is allocated to the equity item "Reserve for development costs". The reserve comprises only development costs recognised in financial years beginning on or after 1 January 2016. The reserve is reduced by amortisation of and impairment losses on the development projects on a continuing basis.

As of the date of completion, capitalised development costs are amortised on a straight-line basis over the period of the expected economic benefit from the development work. The amortisation period is 3-5 years.

Goodwill

Goodwill is amortised on a straight-line basis over the estimated useful life of 10 years. determined on the basis of Management's experience with the individual business areas.

Notes to the Financial Statements

20 Accounting Policies (continued)

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:

Plant and machinery	3-7 years
Other fixtures and fittings, tools and equipment	3 years

Depreciation period and residual value are reassessed annually.

Assets with a usefull life less than 1 year 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 “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

Notes to the Financial Statements

20 Accounting Policies (continued)

of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Fixed asset investments

Fixed 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.

Other fixed asset investments

Other fixed asset investments consist of deposit.

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

Prepayments

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

Notes to the Financial Statements

20 Accounting Policies (continued)

Current asset investments

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

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

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 liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as 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

Notes to the Financial Statements

20 Accounting Policies (continued)

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.

Deferred income

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

Financial Highlights

Explanation of financial ratios

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