
BB Electronics A/S

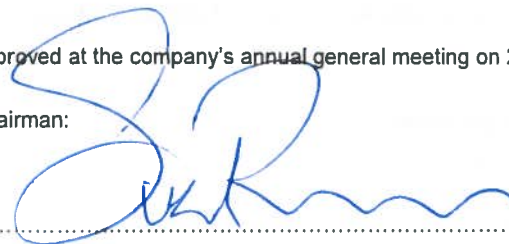
Ane Staunings Vej 21, 8700 Horsens

CVR-nr. 21 66 25 34

Annual report 2018

Approved at the company's annual general meeting on 25 March 2019

Chairman:



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Management's Statement of Responsibility

Today, the Board of Directors and the Executive Board have discussed and approved the Annual Report of BB Electronics A/S for the financial year 1 January – 31 December 2018.

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

It is our opinion that the consolidated financial statements and the parent company financial statements gives a true and fair view of the financial position of the Group and the Company at 31 December 2018 and of the results of Group's and the Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2018.

Further, in our view the management's review gives a true and fair review of the development of the Group's and the Company's activities and financial matters, the profit or loss for the year and the Group's and the Company's financial position.

The Annual Report is submitted for the AGM's approval.

Horsens, dated 25 March 2019
Executive Board:



Carsten Christensen

Board of Directors:



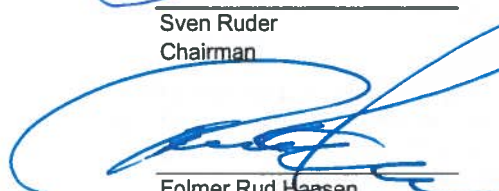
Sven Ruder
Chairman



Ole Steen Andersen
Vice-Chairman



Per Thrane



Folmer Rud Hansen



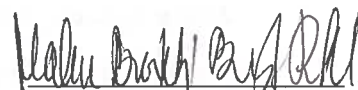
Casper Lykke Pedersen



Svend Lindbjerg
Employee Representative



Gert Højgaard Pedersen
Employee Representative



Malene Braskhøj Bust Pihl
Employee Representative

Independent auditor's report

To the shareholders of BB Electronics A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of BB Electronics A/S for the financial year 1 January – 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity, notes and accounting policies, for the Group and the Parent Company, and a consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of consolidated financial statements and parent company 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 Group's and the Parent 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 Group or the Parent 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 as to 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 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 the financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and 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 Group's and the Parent Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent 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 Group and the Parent Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the 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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the 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 the Management's review and, in doing so, consider whether the 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 the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the 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 of the Management's review.

Aarhus, 25 March 2019
Ernst & Young
Godkendt Revisionspartnerselskab
OVR no. 30 70 02 28

Jes Lauritzen
State Authorised
Public Accountant
mne10121


Kim R. Mortensen
State Authorised
Public Accountant
mne18513

Management's review

Information about the company

Name BB Electronics A/S
Address, postcode, city Ane Staunings Vej 21, 8700 Horsens, Denmark

CVR number 21 66 25 34
Established 21 December 1998
Municipality of residence Horsens
Financial year 1. January – 31. December

Telephone +45 76 25 10 00
Fax +45 76 25 10 10

Largest and smallest group including parent company of which the company is a part: BB Electronics Holding ApS
Ane Staunings Vej 21
8700 Horsens, Denmark
CVR No. 37 40 70 97

Subsidiaries
China:
BB Electronics (Suzhou) Co. Ltd.
Poland:
BB Electronics Poland SP Z.o.o.
Czech Republic:
BB Electronics, Wendell Holding a.s.
BB Electronics, Wendell Electronics a.s.

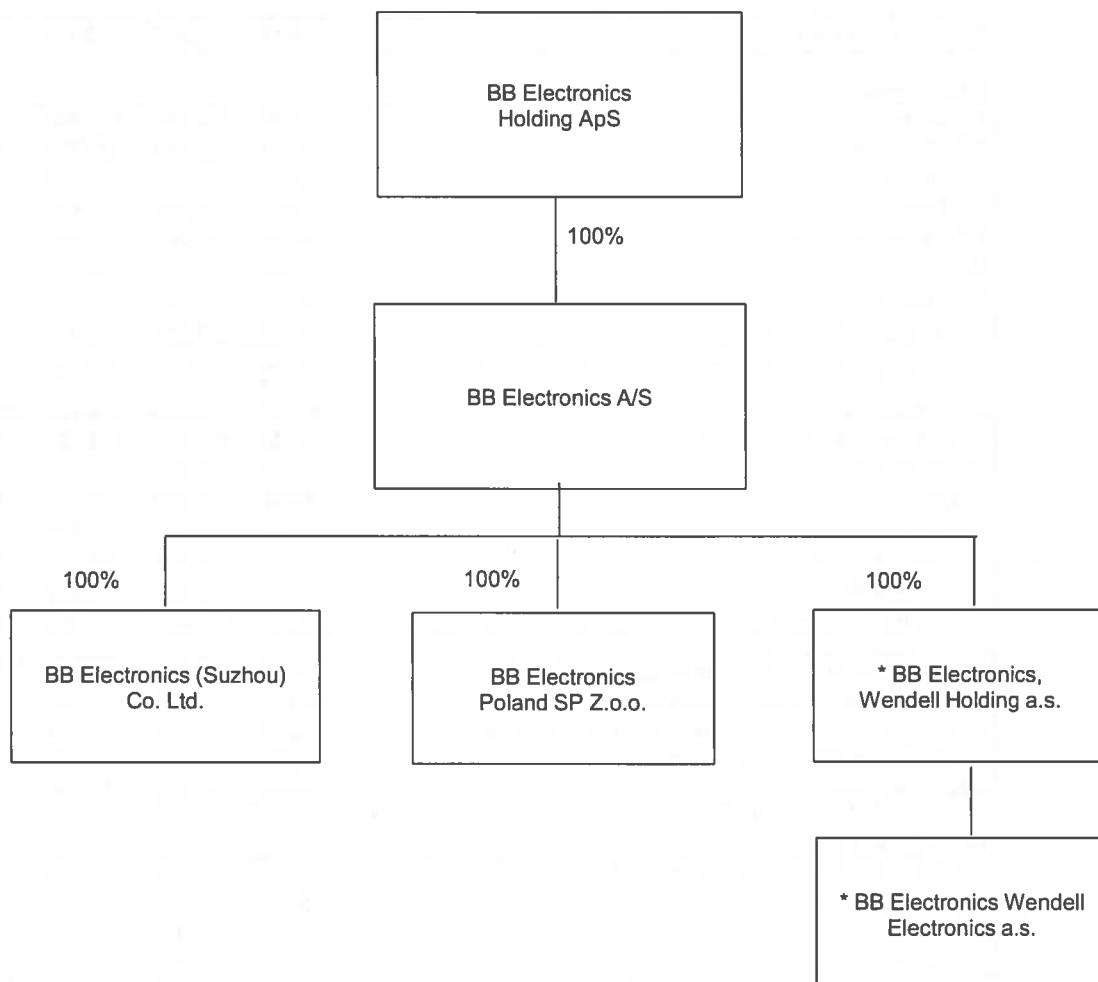
Board of Directors
Sven Ruder, Chairman
Ole Steen Andersen, Vice Chairman
Per Thrane
Folmer Rud Hansen
Casper Lykke Pedersen
Svend Lindbjerg
Gert Højgaard Pedersen
Malene Braskhøj Bust Pihl

Executive Board
CEO Carsten Christensen

Auditor
Ernst & Young Godkendt Revisionspartnerselskab
Værkmestergade 25, 8000 Aarhus C, Denmark, CVR No.30700228

Management's review

Group structure



* It had been acquired in 2019.

Management's review

Financial highlights and key performance indicators for the Group

| thousands of DKK | 2018 | 2017 | 2016 | 2015 | 2014 |
|--|----------------|----------------|----------------|----------------|----------------|
| Key figures | | | | | |
| Revenue | 560,416 | 460,396 | 400,338 | 422,688 | 365,113 |
| EBITDA before special items | 42,519 | 25,168 | 25,702 | 26,224 | 16,470 |
| Special items | -3,866 | -1,012 | 0 | -2,413 | -4,814 |
| EBITDA | 38,653 | 24,156 | 25,702 | 23,811 | 11,656 |
| Operating profit / loss | 34,509 | 17,089 | 18,431 | 15,480 | 1,781 |
| EBIT | 33,556 | 17,117 | 18,701 | 15,690 | 2,093 |
| Net financials | -3,048 | -114 | -2,149 | -5,451 | -5,884 |
| Profit or loss for the year | 26,169 | 20,290 | 14,957 | 7,337 | -5,627 |
| Fixed assets | 17,199 | 16,116 | 16,417 | 16,282 | 20,203 |
| Current assets | 286,725 | 235,773 | 213,134 | 202,314 | 188,296 |
| Total assets (balance sheet total) | 303,924 | 251,889 | 229,551 | 218,596 | 208,499 |
| Share capital | 7,634 | 7,634 | 7,634 | 7,634 | 7,634 |
| Equity | 126,767 | 100,856 | 86,596 | 43,046 | 31,032 |
| Provisions | 318 | 202 | 134 | 561 | 264 |
| Non-current liabilities | 15,040 | 22,374 | 27,735 | 12,580 | 25,997 |
| Current liabilities | 161,799 | 128,457 | 115,086 | 162,409 | 151,206 |
| Net interest bearing debt | -10,778 | 4,092 | 483 | 30,695 | 43,721 |
| Cash flows from operating activities | 28,545 | 9,463 | 49,483 | 22,464 | 24,945 |
| Cash flows from investment activities | -6,158 | -7,074 | -7,580 | -3,961 | -5,160 |
| Of which are invested in property, plant and equipment | -5,246 | -4,078 | -7,024 | -3,910 | -3,109 |
| Cash flows from financing activities | -14,350 | -11,129 | -2,703 | -19,423 | -16,050 |
| Net cash flows | 8,036 | -8,740 | 39,200 | -920 | 3,735 |
| Financial ratios | | | | | |
| EBITDA margin before special items (%) | 7.6 | 5.5 | 6.4 | 6.2 | 4.5 |
| EBIT margin (%) | 6.0 | 3.7 | 4.7 | 3.7 | 0.6 |
| Return on equity (%) | 23.0 | 21.6 | 23.1 | 19.8 | -18.6 |
| Equity ratio (%) | 41.7 | 40.0 | 37.7 | 19.7 | 14.9 |
| Average number of full time employees | 485 | 484 | 452 | 488 | 515 |

Financial ratios are calculated as follows:

EBITDA margin before special items:

EBIT margin:

Return on equity:

Equity ratio:

EBITDA before special items x 100/Revenue

EBIT x 100/Revenue

Profit or loss after tax x 100/Average equity

Closing equity x 100/Closing total assets

Report

The Group's activities consist of development, production and sales of electronics and EMS services. Production takes place in BB Electronics A/S in Denmark and in the Chinese subsidiary, BB Electronics (Suzhou) Co. Ltd.

Financial development - Group

Sales for 2018 totalled DKK 560 million, which is an increase of 22% compared to 2017 (DKK 460 million). The growth was driven by both existing and new customers. The sales growth comes from all 3 customer segments.

560 (22 % growth) *million DKK in turnover*

In 2018, the Group realised total earnings (EBITDA) before special items of DKK 43 million (2017: DKK 25 million) and profit after tax of DKK 26 million (2017: DKK 20 million).

The higher EBITDA before special items compared to last year is primarily driven by the higher sales.

Profit after tax was positively affected by DKK 3.7 million from previously unrecognised tax assets.

Sales growth and EBITDA level ended above budget and is considered satisfactory.

The balance sheet total for the Group at the end of the financial year was DKK 304 million compared with DKK 252 million last year.

The increase is due to increased working capital in connection with the increased activity, higher cash position, and the recognition of the above-mentioned tax assets.

Cash flows from operating activities

Cash flows from operating activities in 2018 amounted to DKK 29 million (2017: DKK 9 million), which was above budget, are considered satisfactory especially based on the high growth in revenue.

29 *million DKK in cash flow*

Cash flows from investing and financing activities

The total investment cost was DKK 6 million (2017: DKK 7 million).

As of 31 December 2018, net interest-bearing debt is DKK -11 million, while 2017 ended with DKK 4 million.

The current capital structure provides the flexibility required to fully support the future strategy of the Company.

Investments

Investments during 2018 has been normal operational investments.

Dividends

The Board proposes that no dividends be paid for the financial year 2018.

Recognition and measurement uncertainties

No recognition and measurement uncertainties were identified in the annual report.

Special items

There has been extraordinary cost for continue exploring opportunities in East Europe.

Events after the completion of the financial statements

BB Electronics A/S acquired Wendell Holding in Czech Republic the 14th February 2019. This acquisition has increased the NIBD for the company however management is expecting positive cashflow from the business already the first year.

Expected development

The Company expects to report continued growth in turnover of 3 - 5 % in 2019 as a result of activities initiated in 2018, as well as new customers. Earnings (EBITDA) are expected to increase following the sales with a positive cash flow.

Financial development - parent company

In 2018, there was a total turnover of DKK 449 million (2017: DKK 356 million). Profit after tax was DKK 26 million (2017: DKK 20 million). At the end of the financial year, the balance sheet total amounted to DKK 254 million (2017: DKK 232 million). Equity as of 31 December 2018 amounted to DKK 127 million (2017: DKK 101 million).

can be retrieved via:

https://www.unglobalcompact.org/system/attachments/cop_2019/472817/original/2018_COP_BB_ELECTRONICS_AS.pdf?1553262123

Risk conditions

Business risks

The primary business risk faced by the group is the continued ability to deliver good service and product quality at competitive prices.

Management regularly evaluates whether BB Electronics has an ample capital structure, and the Board regularly evaluates whether the capital basis is in keeping with the company's interests and those of its stakeholders. The overall goal is to ensure a capital structure that will support long-term growth.

Financial risks

The parent company centrally manages the Group's financial risks and coordinates the Group's cash management, including funding and placement of surplus liquidity.

Customers and inventory are guaranteed via external credit insurance. Some large groups are not insured via external credit insurance due to their risk profile.

Where deemed appropriate actions are taken to reduce financial risk by entered into financial instruments in the form of forward contracts and interest rate swaps.

Knowledge resources

In 2018, the Company maintained its focus on the competitive situation.

The staff in China now makes up 79 % of the full-time employees, while the number in Denmark is 21 %. In order to continually be able to deliver and develop competitive products and solutions, it is paramount that the Group be able to retain and develop employees with a high level of education.

Therefore, our HR department works with a strategic perspective that in future will focus on goal-oriented work with attraction, development and job satisfaction amongst the staff.

Statutory Report on Corporate Social Responsibility (CSR)

The Group joined the UN Global Compact in 2010. The progress report for the year include the statutory statement for human rights, environmental issues, climate issues, anticorruption, social and employee conditions cf. §99a. The report was published and

Whistleblowers

Employees at BB Electronics have the possibility to contact an external company anonymously if there should be events that they wish to report. There were made one report in 2018 however no findings during the investigation.

Goals and policies for gender composition of the management

BB Electronics has goals for recruitment of women for management positions. BB Electronics wants to make the goal of more women in management quantifiable - both in terms of the process leading to the goal and in relation to the concrete results. Targets have been set for the ratio of female senior managers:

- The current proportion of females at the senior management level (the Board) is currently 0%, and the target is at least 25% in 5 years from now. There were no actual replacements on the Board in 2018.
- The proportion of female senior managers in daily management (Executive Board) is currently 25 %, and the target here is also not less than 25 %.

The goal is for at least one of each gender to be amongst the final three candidates in there cruitment process.

**Consolidated financial statements and parent company financial statements for the period
1 January – 31 December**

Income statement

| Note | thousands of DKK | Group | | Parent company | |
|-------|--|---------------|---------------|----------------|---------------|
| | | 2018 | 2017 | 2018 | 2017 |
| 1 | Revenue | 560,416 | 460,396 | 448,566 | 356,413 |
| 3 | Production costs | -481,642 | -407,321 | -396,120 | -322,754 |
| | Gross profit or loss | 78,774 | 53,075 | 52,446 | 33,659 |
| 3 | Distribution costs | -12,124 | -10,502 | -9,456 | -7,944 |
| 2,3,4 | Administrative costs | -32,141 | -25,484 | -22,302 | -17,052 |
| | Operating profit | 34,509 | 17,089 | 20,688 | 8,663 |
| 5 | Other operating income | 55 | 28 | 3,080 | 2,630 |
| 5 | Other operating expenses | -1,008 | 0 | -2 | 0 |
| | Profit before net financials (EBIT) | 33,556 | 17,117 | 23,766 | 11,293 |
| 2,11 | Profit from equity investments in subsidiaries after tax | 0 | 0 | 5,483 | 3,549 |
| 6 | Financial income | 404 | 2,571 | 405 | 2,557 |
| 7 | Financial expenses | -3,452 | -2,685 | -1,387 | -1,420 |
| | Profit before tax | 30,508 | 17,003 | 28,267 | 15,979 |
| 8 | Tax on profit or loss for the year | -4,339 | 3,287 | -2,098 | 4,311 |
| | Profit for the year | 26,169 | 20,290 | 26,169 | 20,290 |
| 19 | Appropriation of profit | | | | |

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Balance sheet

| Note | thousands of DKK | Group | | Parent company | |
|------|--|----------------|----------------|----------------|----------------|
| | | 2018 | 2017 | 2018 | 2017 |
| | ASSETS | | | | |
| | Fixed assets | | | | |
| 9 | Intangible assets | | | | |
| | Software | 2,559 | 2,949 | 2,517 | 2,868 |
| | Other intangible assets | 182 | 242 | 182 | 242 |
| | | <u>2,741</u> | <u>3,191</u> | <u>2,699</u> | <u>3,110</u> |
| 10 | Property, plant and equipment | | | | |
| | Leasehold improvements | 1,000 | 1,119 | 167 | 220 |
| | Plant and machinery | 11,590 | 9,173 | 7,185 | 6,792 |
| | Other fixtures and fittings | 879 | 995 | 666 | 822 |
| | Property, plant and equipment under construction | 0 | 649 | 0 | 0 |
| | | <u>13,469</u> | <u>11,936</u> | <u>8,018</u> | <u>7,834</u> |
| 11 | Financial assets | | | | |
| | Investments in subsidiaries | 0 | 0 | 90,391 | 85,193 |
| | Other receivables | 989 | 989 | 989 | 989 |
| | | <u>989</u> | <u>989</u> | <u>91,380</u> | <u>86,182</u> |
| | Total fixed assets | <u>17,199</u> | <u>16,116</u> | <u>102,097</u> | <u>97,126</u> |
| | Current assets | | | | |
| 12 | Inventories | | | | |
| | Raw materials and consumables | 110,821 | 78,512 | 37,946 | 27,455 |
| | Work in progress | 10,166 | 8,122 | 6,269 | 6,139 |
| | Finished goods and goods for resale | 10,987 | 5,449 | 7,449 | 3,170 |
| | Prepayments for goods | 1,029 | 1,487 | 0 | 0 |
| | | <u>133,003</u> | <u>93,570</u> | <u>51,664</u> | <u>36,764</u> |
| | Receivables | | | | |
| | Trade receivables | 83,997 | 81,651 | 61,092 | 64,687 |
| | Receivables from group enterprises | 11,499 | 7,477 | 11,926 | 7,591 |
| | Other receivables | 1,173 | 2,103 | 257 | 1,279 |
| 8 | Deferred tax assets | 22,347 | 24,864 | 18,123 | 19,700 |
| 8 | Tax receivables | 753 | 0 | 0 | 0 |
| | Prepayments | 1,734 | 1,794 | 1,180 | 1,299 |
| | | <u>121,503</u> | <u>117,889</u> | <u>92,578</u> | <u>94,556</u> |
| | Cash and cash equivalents | <u>32,219</u> | <u>24,314</u> | <u>7,321</u> | <u>3,739</u> |
| | Total current assets | <u>286,725</u> | <u>235,773</u> | <u>151,563</u> | <u>135,059</u> |
| | TOTAL ASSETS | <u>303,924</u> | <u>251,889</u> | <u>253,660</u> | <u>232,185</u> |

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Balance sheet

| Note | thousands of DKK | Group | | Parent company | |
|------|--|----------------|----------------|----------------|----------------|
| | | 2018 | 2017 | 2018 | 2017 |
| | EQUITY AND LIABILITIES | | | | |
| | Equity | | | | |
| 13 | Share capital | 7,634 | 7,634 | 7,634 | 7,634 |
| | Reserve for net revaluation according to the equity method | 0 | 0 | 39,506 | 34,413 |
| | Retained earnings | 119,133 | 93,222 | 79,627 | 58,809 |
| | Total equity | 126,767 | 100,856 | 126,767 | 100,856 |
| | Provisions | | | | |
| | Other provisions | 318 | 202 | 0 | 0 |
| | Liabilities | | | | |
| 14 | Non-current liabilities | | | | |
| | Credit institutions | 13,851 | 20,777 | 13,851 | 20,777 |
| | Lease debt | 401 | 526 | 408 | 526 |
| | Other non-current debt | 668 | 1,071 | 667 | 1,071 |
| | | 14,920 | 22,374 | 14,926 | 22,374 |
| | Current liabilities | | | | |
| | Short-term part of non-current liabilities | 8,601 | 8,174 | 8,481 | 8,174 |
| | Trade payables and other accounts payable | 105,693 | 87,206 | 35,202 | 29,929 |
| | Prepayments from customers | 19,026 | 9,205 | 16,857 | 8,809 |
| 8 | Income tax payable | 0 | 812 | 0 | 0 |
| | Payables to group enterprises | 0 | 0 | 34,406 | 50,287 |
| | Other payables | 28,599 | 23,061 | 17,021 | 11,756 |
| | | 161,919 | 128,458 | 111,967 | 108,955 |
| | Total liabilities | 176,839 | 150,831 | 126,893 | 131,329 |
| | TOTAL equity and liabilities | 303,924 | 251,889 | 253,660 | 232,185 |
| 15 | Contingent assets and collaterals | | | | |
| 16 | Operating leasing and rental agreements | | | | |
| 17 | Related parties | | | | |
| 18 | Currency and interest rate risks and use of derivative financial instruments | | | | |
| | Accounting policies used, pages 25-30 | | | | |

**Consolidated financial statements and parent company financial statements for the period
1 January – 31 December**

Statement of changes in equity

| | | Group | | |
|------|--|---------------|-------------------|--------------|
| Note | thousands of DKK | Share capital | Retained earnings | Total equity |
| | Equity at 1 January 2017 | 7,634 | 78,962 | 86,596 |
| | Value adjustments of hedging instruments after tax | 0 | -442 | -442 |
| | Exchange rate adjustments | 0 | -5,588 | -5,588 |
| | Profit or loss for the year | 0 | 20,290 | 20,290 |
| | Equity at 1 January 2018 | 7,634 | 93,222 | 100,856 |
| | Value adjustments of hedging instruments after tax | 0 | 132 | 132 |
| | Exchange rate adjustments of foreign companies | 0 | -390 | -390 |
| | Profit or loss for the year | 0 | 26,169 | 26,169 |
| | Equity at 31 December 2018 | 7,634 | 119,133 | 126,767 |

| | | Parent company | | | |
|------|--|----------------|--|-------------------|--------------|
| Note | thousands of DKK | Share capital | Net revaluation according to the equity method | Retained earnings | Total equity |
| | Equity at 1 January 2017 | 7,634 | 36,452 | 42,510 | 86,596 |
| | Value adjustments of hedging instruments after tax | 0 | 0 | -442 | -442 |
| | Exchange adjustment for subsidiary | 0 | -5,588 | 0 | -5,588 |
| 19 | Profit or loss for the year | 0 | 3,549 | 16,741 | 20,290 |
| | Equity at 1 January 2018 | 7,634 | 34,413 | 58,809 | 100,856 |
| | Value adjustments of hedging instruments after tax | 0 | 0 | 132 | 132 |
| | Exchange adjustment for subsidiary | 0 | -390 | 0 | -390 |
| 19 | Profit or loss for the year | 0 | 5,483 | 20,686 | 26,169 |
| | Equity at 31 December 2018 | 7,634 | 39,506 | 79,627 | 126,767 |

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Cash flow statement

| Note | thousands of DKK | 2018 | 2017 |
|------|---|----------------|----------------|
| | Profit or loss for the year | 26,169 | 20,290 |
| 20 | Adjustments | 12,546 | 3,934 |
| 21 | Changes in working capital | -7,011 | -13,374 |
| | Cash flows from operations | 31,704 | 10,850 |
| 8 | Income tax paid | -3,413 | -1,387 |
| | Cash flows from operating activities | 28,291 | 9,463 |
| | Acquisition of intangible assets | -1,015 | -3,232 |
| | Acquisition of Property, plant and equipment | -5,245 | -4,078 |
| | Change in financial assets | 0 | 208 |
| | Sales of property, plant and equipment | 101 | 28 |
| | Cash flows from investment activities | -6,159 | -7,074 |
| | Interest bearing debt | -7,026 | -4,153 |
| | Change from receivables from/payables to group enterprises | -4,022 | -6,862 |
| | Financial income, received | 404 | 2,571 |
| | Financial costs, paid | -3,452 | -2,685 |
| | Cash flows from financing activities | -14,096 | -11,129 |
| | Net cash flows | 8,036 | -8,740 |
| | Cash at 1 January | 24,314 | 34,218 |
| | Exchange rate adjustment of cash and cash equivalents 1 January | -131 | -1,164 |
| | Cash at 31 December | 32,219 | 24,314 |

The statement of cash flows cannot be directly derived from the other components of the consolidated financial statements.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

1 Revenue

Distribution of business areas is as follows:

| thousands of DKK | Group | | Parent company | |
|--------------------------|----------------|----------------|----------------|----------------|
| | 2018 | 2017 | 2018 | 2017 |
| Industry | 255,562 | 273,793 | 257,021 | 239,515 |
| Professional Telecomm/IT | 174,771 | 101,537 | 143,257 | 82,853 |
| Other | 130,083 | 85,066 | 40,312 | 27,364 |
| Subsidiary | 0 | 0 | 7,976 | 6,681 |
| | <u>560,416</u> | <u>460,396</u> | <u>448,566</u> | <u>356,413</u> |

Distribution of geographical markets is as follows:

| | | | | |
|-----------------|----------------|----------------|----------------|----------------|
| Denmark | 325,230 | 259,667 | 293,147 | 215,941 |
| Other countries | 235,186 | 200,729 | 155,419 | 140,472 |
| | <u>560,416</u> | <u>460,396</u> | <u>448,566</u> | <u>356,413</u> |

2 Special items

Special items include significant income and expenses of a special nature in relation to revenue-generating operational activities of the Group. Special items also include other significant amounts of a non-recurring nature that management does not consider part of the Group's ordinary operations.

Profit or loss for the year was influenced by special items relating to continuing exploring opportunities in East Europe, which the management considers not to be part of the ordinary operations.

Special items, including where they have been recognised in the income statement, are specified below.

| thousands of DKK | Group | |
|---|---------------|---------------|
| | 2018 | 2017 |
| Costs | | |
| Costs, exploring establishment of subsidiary in east europe, customs case | <u>-3,866</u> | <u>-1,012</u> |

Special items are included in the consolidated financial statements in the following line items:

| | | |
|-----------------------------------|---------------|---------------|
| Production costs | -565 | 0 |
| Administrative costs | -2,299 | -1,012 |
| Other ordinary operating expenses | <u>-1,002</u> | <u>0</u> |
| Profit or loss from special items | <u>-3,866</u> | <u>-1,012</u> |

The Parent company recognised administrative costs of DKK 1,833 thousand in special items and DKK 466 thousand in investments in the subsidiary, a total of DKK 2,299 thousand.

The Parent company recognised production costs of DKK 565 thousand in special items.

The parent company recognised other ordinary operating expenses of DKK 2 thousand in special items and DKK 1000 thousand in investments in the subsidiary, a total of DKK 1,002 thousand.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

3 Staff costs and incentive plans

Staff costs are broken down as follows:

| thousands of DKK | Group | | Parent company | |
|-----------------------------|----------------|---------------|----------------|---------------|
| | 2018 | 2017 | 2018 | 2017 |
| Salaries and wages | 95,269 | 81,092 | 52,048 | 44,381 |
| Pension contributions | 7,735 | 7,082 | 3,372 | 3,070 |
| Other social security costs | 5,037 | 4,544 | 727 | 901 |
| | <u>108,041</u> | <u>92,718</u> | <u>56,147</u> | <u>48,352</u> |

and are recognised as follows:

| | | | | |
|----------------------|----------------|---------------|---------------|---------------|
| Production costs | 84,712 | 74,354 | 37,179 | 33,724 |
| Distribution costs | 7,563 | 6,460 | 7,563 | 6,460 |
| Administration costs | 15,766 | 11,904 | 11,405 | 8,168 |
| | <u>108,041</u> | <u>92,718</u> | <u>56,147</u> | <u>48,352</u> |

Of which remuneration to the Board of

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Directors and the Executive Board total | <u>2,873</u> | <u>2,010</u> | <u>2,873</u> | <u>2,010</u> |
|---|--------------|--------------|--------------|--------------|

| | | | | |
|---------------------------------------|------------|------------|------------|-----------|
| Average number of full time employees | <u>485</u> | <u>484</u> | <u>103</u> | <u>94</u> |
|---------------------------------------|------------|------------|------------|-----------|

| | | | | |
|---|------------|------------|------------|-----------|
| Number of permanent employees as of 31 December | <u>477</u> | <u>463</u> | <u>104</u> | <u>97</u> |
|---|------------|------------|------------|-----------|

Incentive programmes

In 2016, a warrant programme was established for the benefit of the management and certain key employees. The programme allows the Board of the Parent company to issue up to 12,470 warrants to be allocated over a period of 4 years. 5,839 has been granted to key employees end of 2018. Upon utilisation of warrants, the owner is entitled to subscribe shares in the parent company at a cost of DKK 2,000 per share with a nominal value of DKK 1. The warrants must be utilised by 1 May 2023, otherwise they will be void.

4 Fee to the Company's auditor appointed by the general meeting

The BB Electronics A/S Group is included in the consolidated financial statements of the parent company, where the fee to the auditor elected by the AGM is stated.

5 Other operating income

Other operating income:

| thousands of DKK | Group | | Parent company | |
|--|-----------|-----------|----------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Profit on sale of fixed assets | 55 | 28 | 55 | 4 |
| Income in the form of joint costs invoiced to subsidiary | 0 | 0 | 3,025 | 2,626 |
| | <u>55</u> | <u>28</u> | <u>3,080</u> | <u>2,630</u> |

**Consolidated financial statements and parent company financial statements for the period
1 January – 31 December**

Notes

| | | Group | | Parent company | |
|----------|-------------------------|--------------|--------------|-----------------------|--------------|
| | | 2018 | 2017 | 2018 | 2017 |
| | thousands of DKK | | | | |
| 6 | Financial income | | | | |
| | Exchange rate gains | 385 | 2,557 | 385 | 2,557 |
| | Other financial income | 19 | 14 | 20 | 0 |
| | | <u>404</u> | <u>2,571</u> | <u>405</u> | <u>2,557</u> |

Interest from group enterprises amounts to DKK 18 thousand (2017: DKK 0 thousand).

| | | | | | |
|----------|---------------------------|--------------|--------------|--------------|--------------|
| 7 | Financial expenses | | | | |
| | Exchange rate losses | 1,703 | 973 | 0 | 0 |
| | Other financial costs | 1,749 | 1,712 | 1,387 | 1,420 |
| | | <u>3,452</u> | <u>2,685</u> | <u>1,387</u> | <u>1,420</u> |

Interest from group enterprises amounts to DKK 0 thousand (2017: DKK 0 thousand).

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

8 Income tax and deferred tax

| thousands of DKK | Group | | Tax according to income statement |
|---|-------------------------|------------------------|---|
| | Income tax liability | Deferred tax assets | |
| Balance, 1 January 2017 | 813 | 20,474 | 0 |
| Exchange rate adjustments | -45 | -328 | 0 |
| Adjustment of deferred tax for the year | 0 | 4,718 | -4,718 |
| Income tax paid | -1,387 | 0 | 0 |
| Tax related to income for the year | 1,431 | 0 | 1,431 |
| Balance, 31 December 2017 | 812 | 24,864 | -3,287 |
| Balance, 1 January 2018 | 812 | 24,864 | 0 |
| Exchange rate adjustments | 0 | -26 | 0 |
| Adjustment of deferred tax for the year | 0 | -2,491 | 2,491 |
| Income tax paid | -3,413 | 0 | 0 |
| Tax related to income for the year | 1,848 | 0 | 1,848 |
| Balance, 31 December 2018 | -753 | 22,347 | 4,339 |

The deferred tax asset consists of tax loss carryforwards and accelerated depreciation options. Based on budgets and projections, management believes that it will be possible to utilise the tax asset. For 2017 the Group had an additional non-capitalised tax asset of a 3.7 million DKK at their disposal which was recognized in 2018.

| thousands of DKK | Parent company | | Tax according to income statement |
|---|-------------------------|------------------------|---|
| | Income tax liability | Deferred tax assets | |
| Balance, 1 January 2017 | 55 | 15,124 | 0 |
| Adjustment of deferred tax for the year | 0 | 4,576 | -4,576 |
| Income tax paid | -320 | 0 | 0 |
| Tax on income for the year | 265 | 0 | 265 |
| Balance, 31 December 2017 | 0 | 19,700 | -4,311 |
| Balance, 1 January 2018 | 0 | 19,700 | 0 |
| Adjustment of deferred tax for the year | 0 | -1,577 | 1,577 |
| Tax regarding equity adjustments | 0 | 0 | -38 |
| Income tax paid | -267 | 0 | 0 |
| Tax on income for the year/Joint taxation | 521 | 0 | 559 |
| Balance, 31 December 2018 | * 254 | 18,123 | 2,098 |

* Included in receivables from group companies.

The deferred tax asset consists of tax loss carryforwards and accelerated depreciation options. Based on budgets and projections, management believes that it will be possible to utilise the tax asset. For 2017 the Company had an additional non-capitalised tax asset of a 3.7 million DKK at their disposal which was recognized in 2018.

**Consolidated financial statements and parent company financial statements for the period
1 January – 31 December**

Notes

9 Intangible assets

thousands of DKK

| |
|--|
| Cost at 1 January 2018 |
| Exchange rate adjustments |
| Additions |
| Disposals |
| Cost at 31 December 2018 |
| Amortisation at 1 January 2018 |
| Exchange rate adjustments |
| Amortisation for the year |
| Reversals of amortisation by the end of the year |
| Amortisation at 31 December 2018 |

Carrying amount at 31 December 2018

Amortised over

| Group | | |
|-----------------|--|--------------|
| Software | Other intangible assets | Total |
| 24,705 | 303 | 25,008 |
| -2 | 0 | -2 |
| 1,015 | 0 | 1,015 |
| -845 | 0 | -845 |
| 24,873 | 303 | 25,176 |
| -21,756 | -61 | -21,817 |
| 3 | 0 | 3 |
| -1,404 | -60 | -1,464 |
| 843 | 0 | 843 |
| -22,314 | -121 | -22,435 |
| 2,559 | 182 | 2,741 |
| 3 - 5 years | 5 years | |

thousands of DKK

| |
|--|
| Cost at 1 January 2018 |
| Additions |
| Disposals |
| Cost at 31 December 2018 |
| Amortisation at 1 January 2018 |
| Amortisation for the year |
| Reversals of amortisation by the end of the year |
| Amortisation at 31 December 2018 |

Carrying amount at 31 December 2018

Amortised over

| Parent company | | |
|-----------------------|--|--------------|
| Software | Other intangible assets | Total |
| 24,125 | 303 | 24,428 |
| 1,001 | 0 | 1,001 |
| -843 | 0 | -843 |
| 24,283 | 303 | 24,586 |
| -21,257 | -61 | -21,318 |
| -1,351 | -60 | -1,411 |
| 842 | 0 | 842 |
| -21,766 | -121 | -21,887 |
| 2,517 | 182 | 2,699 |
| 3 - 5 years | 5 years | |

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

10 Property, plant and equipment

| | Group | | | | Total |
|--|------------------------|---------------------|-----------------------------|--|---------------|
| | Leasehold improvements | Plant and machinery | Other fixtures and fittings | Property, plant and equipment under construction | |
| thousands of DKK | | | | | |
| Cost at 1 January 2018 | 24,204 | 126,111 | 18,249 | 649 | 169,213 |
| Exchange rate adjustments | -68 | -353 | -40 | 0 | -461 |
| Additions/Transfer | 253 | 5,503 | 138 | -649 | 5,245 |
| Disposals | 0 | -378 | -209 | 0 | -587 |
| Cost at 31 December 2018 | 24,389 | 130,883 | 18,138 | 0 | 173,410 |
| Depreciation at 1 January 2018 | -23,085 | -116,938 | -17,254 | 0 | -157,277 |
| Exchange rate adjustments | 63 | 326 | 39 | 0 | 428 |
| Depreciation for the year | -367 | -3,013 | -253 | 0 | -3,633 |
| Reversals of accumulated depreciation and impairment on assets sold | 0 | 332 | 209 | 0 | 541 |
| Depreciation at 31 December 2018 | -23,389 | -119,293 | -17,259 | 0 | -159,941 |
| Carrying amount at 31 December 2018 | 1,000 | 11,590 | 879 | 0 | 13,469 |
| Property, plant and equipment include assets held under financial lease assets with a total carrying amount of | 0 | 0 | 596 | 0 | 596 |
| Depreciated over | 5 years | 5 - 8 years | 3 - 8 years | | |

| | Parent company | | | | Total |
|--|------------------------|---------------------|-----------------------------|--|--------------|
| | Leasehold improvements | Plant and machinery | Other fixtures and fittings | Property, plant and equipment under construction | |
| thousands of DKK | | | | | |
| Cost at 1 January 2018 | 13,498 | 72,806 | 11,753 | 0 | 98,057 |
| Additions | 61 | 2,200 | 30 | 0 | 2,291 |
| Disposals | 0 | -60 | 0 | 0 | -60 |
| Cost at 31 December 2018 | 13,559 | 74,946 | 11,783 | 0 | 100,288 |
| Depreciation at 1 January 2018 | -13,278 | -66,014 | -10,931 | 0 | -90,223 |
| Depreciation for the year | -114 | -1,762 | -186 | 0 | -2,062 |
| Reversals of accumulated depreciation and impairment on assets sold | 0 | 15 | 0 | 0 | 15 |
| Depreciation at 31 December 2018 | -13,392 | -67,761 | -11,117 | 0 | -92,270 |
| Carrying amount at 31 December 2018 | 167 | 7,185 | 666 | 0 | 8,018 |
| Property, plant and equipment include assets held under financial lease assets with a total carrying amount of | 0 | 0 | 596 | 0 | 596 |
| Depreciated over | 5 years | 5 - 8 years | 3 - 8 years | | |

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

11 Financial assets

| | Group | |
|--|--------------|------------------------------|
| | | Other receivables |
| thousands of DKK | | |
| Cost at 1 January 2018 | | 989 |
| Additions | | 0 |
| Cost at 31 December 2018 | | 989 |
| Carrying amount at 31 December 2018 | | 989 |

| | Parent company | |
|--|---|------------------------------|
| | Equity investments in subsidiaries | Other receivables |
| thousands of DKK | | |
| Cost at 1 January 2018 | 35,057 | 989 |
| Additions | 0 | 0 |
| Cost at 31 December 2018 | 35,057 | 989 |
| Revaluation at 1 January 2018 | 50,136 | 0 |
| Profit or loss for the year after tax | 5,483 | 0 |
| Exchange rate adjustments | -390 | 0 |
| Other | 105 | 0 |
| Revaluation at 31 December 2018 | 55,334 | 0 |
| Carrying amount at 31 December 2018 | 90,391 | 989 |

Equity investments in subsidiaries are specified as follows:

| | Principal place of business | Share capital | Vote and ownership share |
|----------------------------------|--|----------------------|---|
| BB Electronics (Suzhou) Co. Ltd. | China | CNY 45,634 thousand | 100% |
| BB Electronics Poland SP Z.o.o. | Poland | PLN 5 thousand | 100% |

12 Inventories

A significant proportion of inventories is customer specific components, procured in relation to agreements for which customers are liable.

13 Authorised share capital

As of 31 December 2018, equity consisted of 76,340 shares of DKK 100 each.
Share capital has been unchanged for the past 5 years.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

14 Non-current liabilities

Payments due within 1 year are recognised under current liabilities. As of 31 December 2018, non-current liabilities amounted to DKK 14,926 thousand (2017: DKK 22,374 thousand). The non-current liabilities mature within 5 years after the reporting date.

15 Contingent liabilities and collateral

BB Electronics A/S' insurance coverage of receivables from sales of goods and services has been provided as security to the Company's banks.

A financial institution has provided a customer with a guarantee of DKK 457 thousand which expires in 2021.

A company charge security for DKK 60,000 thousand has been provided as security for payables to credit institutions.

BB Electronics A/S forms a tax group with the Parent company and as of 13 February 2016 is jointly liable with the Parent company for Danish corporate tax within the tax group. The known net liabilities of the tax group companies to the Danish Tax and Customs Administration are shown in the Parent company's financial statements (BB Electronics Holding ApS, CVR No. 37 40 70 97). Any later corrections of tax group income may result in a higher tax group liability.

16 Operating leasing and rental agreements

Group

In addition to finance leases, the Company has acquired operating lease liabilities with payments in the non-cancellation period totalling DKK 1,033 thousand (2017: DKK 1,379 thousand). The leasing contracts have non-cancellation periods of up to 24 months.

The rental agreement in Denmark has a 12 month notice. The annual rent during the non-cancellation period amounts to DKK 2,498 thousand (2017: DKK 1,421 thousand).

The non-cancellation period for the rental agreement in China ends on 30 September 2019. The total rent during the non-cancellation period amounts to DKK 1,325 thousand (2017: DKK 3,188 thousand).

Parent company

In addition to finance leasing contracts, the Company has entered into operating lease liabilities with payments in the non-cancellation period totalling DKK 1,033 thousand (2017: DKK 1,379 thousand). The leasing contracts have non-cancellation periods of up to 24 months.

The rental contract is not subject to cancellation until 1 January 2019, after which it can be terminated with 12 months' notice. The annual rent is DKK 2,498 thousand (2017: DKK 1,421 thousand).

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

17 Related parties

BB Electronics A/S' related parties include the following:

| Controlling interest | Background | Transactions |
|---|-----------------------|--|
| BB Electronics Holding ApS Ane Staunings Vej 21 8700 Horsens, Denmark | Principal shareholder | Receivables, DKK 11,499 thousand |
| BB Electronics (Suzhou) Co. Ltd. China | Subsidiary | Sale of goods and services: Product sales, DKK 7,976 thousand IT service, DKK 3,232 thousand Product purchases: Product purchases, DKK 228,845 thousand Payables, DKK 34,084 thousand |
| BB Electronics Poland SP Z.o.o. | Subsidiary | Receivables, DKK 614 thousand |

Ownership

The following shareholder is listed in the list of owners as holding 100% of the share capital:

BB Electronics Holding ApS
Ane Staunings Vej 21
8700 Horsens, Denmark

18 Currency and interest rate risks and use of derived financial instruments

The Group uses hedging instruments such as forward exchange contracts and interest rate/currency swaps to hedge recognised and non-recognised transactions.

2018

There are no financial contracts to hedge currency translation exposure in the income statement as of 31 December 2018.

As of 31 December 2018, the Group entered into the following forward contracts to hedge product purchases:

| Currency | Contract value thousands of USD | Market value thousands of DKK |
|----------|--|--|
| EUR/USD | 817 | 156 |

As of 31 December 2018, the market value of forward contracts is included under other receivables and directly in equity.

The Company hedges interest risk using interest rate swaps, whereby variable interest payments are converted to fixed interest payments.

| thousands of DKK | Calculation Principal | Value adjustments recognised in equity | Fair value | Residual maturity |
|---------------------|--------------------------|---|------------|----------------------|
| Interest rate swaps | 15,866 | -138 | -138 | 3 years |

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Notes

18 Currency and interest risks and use of derived financial instruments (continued)

2017

The Group uses hedging instruments such as forward contracts and interest rate/currency swaps as part of the hedging of recognised and unrecognised transactions.

There are no financial contracts to hedge currency translation exposure in the income statement as of 31 December 2017.

As of 31 December 2017, the Group entered into the following forward contracts for the hedging of purchases:

| Currency | Contract value | Market value |
|----------|---------------------|---------------------|
| | thousands of USD | thousands of DKK |
| EUR/USD | 593 | 1 |

As of 31 December 2017, the market value of forward contracts is included under other receivables and directly in equity.

The Company hedges interest risk using interest rate swaps, whereby variable interest payments are converted to fixed interest payments.

| | Calculation Principal | Value adjustments recognised in equity | Fair value | Residual maturity |
|---|--------------------------|---|------------|----------------------|
| thousands of DKK | | | | |
| Interest rate swaps | 21,155 | -154 | -154 | 4 years |
| thousands of DKK | | | 2018 | 2017 |
| 19 Appropriation of profit / loss | | | | |
| Reserve for net revaluations according to the equity method | | | 5,483 | 3,549 |
| Retained earnings | | | 20,686 | 16,741 |
| | | | 26,169 | 20,290 |
| 20 Statement of cash flows - adjustments | | | | |
| Depreciation and amortisation | | | 5,098 | 7,067 |
| on intangible assets and property, plant and equipment | | | -55 | -28 |
| Profit on sale of fixed assets | | | -404 | -2,571 |
| Financial income | | | 3,452 | 2,685 |
| Financial costs | | | 4,339 | -3,287 |
| Tax on profit or loss for the year | | | 116 | 68 |
| Changes in provisions | | | 12,546 | 3,934 |
| 21 Statement of cash flows - changes in working capital | | | | |
| Change in receivables etc. | | | -1,203 | -7,632 |
| Change in inventories | | | -39,434 | -13,947 |
| Change in suppliers and other liabilities etc. | | | 33,861 | 12,012 |
| Exchange rate adjustments | | | -235 | -3,807 |
| | | | -7,011 | -13,374 |

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies

The consolidated financial statements and the parent company financial statements of BB Electronics A/S for 2018 have been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting Class C entities.

The financial statements have been prepared according to the same accounting policies as last year. Some accounting items have been reclassified. Financial ratios have been restated.

Consolidated financial statements

The consolidated financial statements comprise the parent company, BB Electronics A/S and subsidiaries in which the parent - directly or indirectly - owns the majority of voting rights or in which the parent company via share ownership or otherwise holds a controlling interest.

The consolidated financial statements are presented as a consolidation of the financial statements of the parent - directly or indirectly - owns the majority of voting rights or in which the parent company via share ownership or otherwise holds a controlling interest.

The consolidated financial statements are presented as a consolidation of the financial statements of the parent company and subsidiaries, all of which are prepared in accordance with the accounting policies of the BB Electronics Group.

The consolidation eliminates income and expenses internal to the group, internal balances and dividends, and realised and unrealised profits and losses arising from transactions between the consolidated companies.

The equity investments held by the parent company in consolidated subsidiaries are netted against the parent company's share of the subsidiaries' net asset value as recorded at the time of establishment of the group relationship.

Foreign currency translation

Foreign currency transactions throughout the year have been converted to the rate in force on the transaction date. Gains and losses arising between rates on transaction and payment days are recognised in the income statement under financial items.

Receivables, liabilities and other monetary items in foreign currencies are converted to the rate on the reporting date. The exchange rate difference between the reporting date and transaction date is included in the income statement under financial items.

The Group's foreign subsidiaries are independent units. The income statements are converted to an average exchange rate, while items in the balance sheet are converted to the rate on the reporting date. Exchange rate adjustments arising from conversion of subsidiaries' equity at the opening of the year and exchange rate adjustments arising from conversion of the income statement from an average conversion rate to the rate on the reporting date are entered directly in equity.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently at fair value. Positive and negative fair values of derived financial instruments are recognised as other receivables and other liabilities, respectively.

Changes in fair value of derived financial instruments classified as and which satisfy the conditions for securing the fair value of an included asset or an included liability are recognised in the income statement together with any changes in the fair value of the secured asset or the secured liability.

Changes in fair value of derivative financial instruments classified as and which satisfy the conditions for securing expected future transactions regarding purchases and sales in foreign currencies are included under other receivables or other liabilities and in equity. If the expected future transaction leads to recognition of assets or liabilities, amounts deferred under equity are transferred from equity and recognised in the cost of the asset or liability. Amounts deferred under equity are transferred to the income statement for the period in which the secured item affects the income statement.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies continued

Segment information

Sales are specified in business segments and geographic markets. Information about business segments and geographic markets are based on revenue and risk as well as internal financial management.

Income Statement

Revenue

Net sales from sale of goods and manufactured products is recognised in the income statement, provided delivery and risk transferral to the buyer has taken place before the end of the year. Net sales is recognised exclusive of value added tax, other taxes and sales-related discounts.

Production costs

Production costs include costs incurred to achieve the net sales for the year, including direct and indirect raw materials and consumables, salaries and wages, rents and leasing, and depreciation on production plants.

Distribution costs

Costs recognised under distribution costs include costs related to distribution of goods sold throughout the year and any sales campaigns etc. This includes costs related to sales staff, advertising and exhibition costs, and depreciation.

Other operating income/expenses

Other operating income and expenses include accounting items of a secondary nature in relation to the main activities of the company, such as profits and losses in regard to sales of Intangible assets, property, plant and equipment and financial assets.

Profit or loss from equity investments in subsidiaries and associated companies

The parent company's income statement is recognised in the profit after tax of the subsidiary after full elimination of internal profit/loss.

Financial entries

Financial income and costs include interest income and costs, realised and unrealised exchange gains and losses regarding obligations and transactions in foreign currencies, amortisation of financial assets and obligations, and increases and compensations under the tax on account scheme etc. Financial income and costs are recognised as the amounts concerning the financial year.

Tax on profit or loss for the year

BB Electronics A/S is covered by the Danish rules for compulsory joint taxation of the parent company. Subsidiaries are included in the joint taxation from the time they are included in the group accounts until the time when they are excluded from the consolidation.

The parent company is the management company for the joint taxation and consequently settles all payments of corporation tax with the tax authorities.

The current Danish corporate tax is allocated by settlement of joint taxation contributions between the jointly taxed companies in proportion to their taxable income. In connection with this, companies with tax deficits receive joint tax contributions from companies that have been able to use these deficits for the reduction of their own taxable profits.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies continued

The tax for the year consists of the current corporate tax and changes in deferred tax for the year - including as a result of changes in the tax rate - and is recognised in the income statement as the part directly associated with the profit or loss for the year, while tax directly relating can be attributed to items directly in equity.

Balance sheet

Intangible assets

Software

Software is calculated at cost less accumulated depreciation and amortisation. Software is amortised over the estimated useful life, but not more than 5 years.

Other intangible assets

Other intangible assets include the value of the customer list and are calculated at cost less accumulated depreciation and amortisation. Customer lists are amortised over 5 years.

Property, plant and equipment

Furnishings of rented premises, technical plant and machinery and other fixtures and fittings are calculated at cost less accumulated depreciation and amortisation.

The depreciation base is cost less expected residual value at end of useful life.

Cost includes purchase price and costs directly related to the purchase up until the time when the asset is ready to be put into use. For proprietary assets, the cost includes cost of materials, components, subcontractors, direct wages and indirect production costs.

Linear depreciation is performed on the basis of the following evaluation of the expected useful life of the asset:

| | |
|-----------------------------|-----------|
| Leasehold improvements | 5 years |
| Plant and machinery | 5-8 years |
| Other fixtures and fittings | 3 years |

The depreciation base is calculated based on the asset's residual value at the end of its useful life less any write-downs. The depreciation period and the residual value is determined on the date of acquisition and reassessed annually. The depreciation period ends if the residual value exceeds the carrying amount.

The effect of the depreciation is recognised as a change in accounting estimates if there are changes in the amortisation period or residual value.

Depreciation is recognised in the profit and loss statement under production, distribution and administrative costs.

Leasing contracts

Leasing contracts related to assets, where the company holds all material risk and advantage in connection with ownership (financial leasing), are calculated through initial recognition in the balance sheet at the lower of fair value and the present value of future lease payments. The lease's internal interest rate or the alternative borrowing rate, such as the discount factor, is used when calculating the present value. Financial leased assets are hereinafter treated the same as the company's other assets.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies continued

The capitalised residual leasing liability is recognised in the balance sheet as a liability and the interest element of the leasing payment is recognised throughout the term of the contract in the income statement.

All other leasing contracts are classified as operational leases. Services connected with operational leases and other leasing contracts are recognised in the income statement over the term of the contract. The company's total liabilities relating to operational leases are included under contingencies etc.

Financial assets

Investments in subsidiaries

Investments in subsidiaries are recognised in the balance sheet as the proportional share of the companies' net asset value as calculated based on the accounting policies for the parent company while subtracting or adding unrealised profits and losses in the Group.

Net revaluation of equity investments in subsidiaries are transferred under equity as reserve for net revaluations using the equity method to the extent the carrying amount exceeds the cost.

Impairment of assets

The carrying amount of intangible assets and property, plant and equipment, as well as investments in subsidiaries, is assessed annually for indications of impairment other than those expressed by depreciation.

If there are indications of impairment, an impairment test of the asset or group of assets is made. Write-down is made to the recoverable amount if this is lower than the carrying amount.

The higher of net sales price and net asset value is used for the recoverable amount. The net asset value is calculated by the present value of expected net cash flows from an asset or asset group and expected net cash flows from the sale of assets or asset groups at the end of their useful life.

Previously calculated impairment losses are reversed if the reasons for impairment are no longer valid. Impairment of goodwill is not reversed.

Current assets

Inventories

Inventories are calculated at cost based on the FIFO principle. Where cost is higher than the fair value less costs to sell, the value is written down.

Cost for goods, raw materials and consumables are recognised at purchase price plus delivery costs.

Cost for finished goods and goods-in-process include cost for raw materials, consumables, direct salaries and indirect production costs. Indirect production costs include indirect materials and salaries, maintenance of and depreciation on machines and equipment used in production, and factory administration and management costs.

The fair value less costs to sell for inventories is calculated as the sales price excluding finishing costs and costs related to achieving sales, and is established with due consideration of merchantability, obsolescence and development in expected sales price.

Receivables

Receivables are measured at amortised cost and reduced by depreciation for bad debt risk of expected losses according to individual assessment.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies continued

Prepayments

Prepayments are recognised under assets include costs relating to subsequent financial years.

Equity

Expected dividends for the year are shown as a separate item under equity. Dividends are recognised as a liability at the time they are approved by the AGM.

Reserve for net revaluation according to book value includes net revaluation of equity investments in subsidiaries in relation to cost.

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as estimated tax from taxable income for the year, adjusted for tax from the previous year's taxable income and tax paid on account.

Payable and receivable joint tax contributions are recognised as "Income tax receivable" or "Income tax payable".

Deferred tax is calculated using the balance sheet liability method using all temporary differences between the carrying amount and tax value of assets and liabilities. In cases where the estimate of the tax value may be made according to different taxation rules, deferred tax is measured on the basis of the management's planned use of the asset's settlement of the liability.

Deferred tax assets, including the taxable value of carry-over tax losses, are recognised at the value with which they are expected to be used, either by off-setting tax on future earnings or off-setting against deferred tax liabilities.

Provisions

Provisions include expected costs for warranty obligations and other unknown circumstances.

Provisions are recognised when the parent company/Group, as a result of a previous event, has a legal or actual liability and it is likely that settling the liability will require expenditure of the financial resources of the parent company/Group.

Liabilities

Financial liabilities are recognised at the time of loan origination as the proceeds received excepting any realised transaction costs. In subsequent periods, financial liabilities are recognised at amortised cost analogous to the capitalised value using the effective interest rate, so that the difference between the proceeds received and the nominal value is recognised in the income statement throughout the loan period.

The capitalised residual leasing liability on financial leasing contracts is also recognised in financial liabilities.

Other liabilities, including payables to suppliers, group enterprises and other payables are calculated at net realisable value.

Consolidated financial statements and parent company financial statements for the period 1 January – 31 December

Accounting policies continued

Fair value

The fair value measurement is based on the principal market. If a primary market does not exist, it is based on the most advantageous market, which is the market that maximises the price of the asset or liability deducted from of transactions and/or transportation costs.

All assets and liabilities that are measured at fair value or where the fair value has been disclosed are categorised by the fair value hierarchy, as described below:

- Level 1: Value calculated based on the fair value of similar assets/liabilities on a functioning market.
- Level 2: Value calculated based on generally accepted valuation methods based on observable market information.
- Level 3: Value calculated on generally accepted valuation methods and reasonable estimates based on non-observable market information.

Statement of cash flows

The statement of cash flows shows the Group's cash flows for the year divided into operating activities, investment activities and financial activities for the year, cash transfers for the year and liquid assets at the opening and closing of the year.

Cash flows from operating activities

Cash flows from operating activities are recognised as the profit or loss for the year adjusted for non-cash operating items, changes in working capital and corporate tax paid.

Cash flows from investment activities

Cash flows from investment activities include payments related to acquisition and sale of companies and assets as well as acquisitions and sales of Intangible assets, property, plant and equipment and financial assets.

Cash flows from financing activities

Cash flows from financing activities include payments to and from shareholders, borrowing, and interest and capital repayment on interest-bearing debts.

Cash

Liquid assets include cash and bank deposits.

