ICEpower A/S

Vandtårnsvej 62 A, 3. B., DK-2860 Søborg

Annual Report for 1 June 2020 - 31 May 2021

CVR No 25 05 35 91

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 2 /9 2021

Henrik Bjørn Rasmussen
Chairman of the General Meeting

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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of ICEpower A/S for the financial year 1 June 2020 - 31 May 2021.

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 May 2021 of the Company and of the results of the Company operations for 2020/21.

We recommend that the Annual Report be adopted at the Annual General Meeting.

København, 2 September 2021

Executive Board

Keld Lindegaard Andersen
CEO

Board of Directors

Henrik Bjørn Rasmussen Chairman	Ronnie Møller-Thorsøe	Anders Sejer Tranberg-Hansen

Independent Auditor's Report

To the Shareholder of ICEpower A/S

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 May 2021 and of the results of the Company's operations for the financial year 1 June 2020 - 31 May 2021 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of ICEpower A/S for the financial year 1 June 2020 - 31 May 2021, 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.

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

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

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

Hellerup, 2 September 2021
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Niels Henrik B. Mikkelsen
statsautoriseret revisor
mne16675

Company Information

The Company	ICEpower A/S Vandtårnsvej 62 A, 3. B. DK-2860 Søborg CVR No: 25 05 35 91 Financial period: 1 June - 31 May Municipality of reg. office: Gladsaxe Kommune
Board of Directors	Henrik Bjørn Rasmussen, Chairman Ronnie Møller-Thorsøe Anders Sejer Tranberg-Hansen
Executive Board	Keld Lindegaard Andersen
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

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

	2020/21	2019/20	2018/19	2017/18	2016/17
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	67,980	67,321	52,894	44,527	56,151
Profit/loss before financial income and expenses	4,555	13,719	10,449	2,246	14,380
Net financials	4,082	-3,680	-2,829	292	-2,031
Net profit/loss for the year	8,657	8,160	5,973	1,941	9,633
Balance sheet					
Balance sheet total	122,157	119,082	102,652	85,469	81,980
Equity	55,181	52,725	61,565	55,519	53,578
Investment in property, plant and equipment	2,405	3,154	1,835	1,119	4,228
Number of employees	52	45	38	34	30
Ratios					
Return on assets	3.7%	11.5%	10.2%	2.6%	17.5%
Solvency ratio	45.2%	44.3%	60.0%	65.0%	65.4%
Return on equity	16.0%	14.3%	10.2%	3.6%	18.6%

Management's Review

Key activities

ICEpower aspires "to become the preferred partner for outsourced product creation to the leaders of the audio industry".

Originally, ICEpower was focused on supply of parts such as amplification modules and switch mode power supplies for the audio industry. Over the past 5 years ICEpower has developed into a developer and manufacturer of turnkey products (finished goods) and customised electronic solutions to the audio industry including mechanics, software, analog and digital hardware.

While serving the entire audio industry with audio products, ICEpower focuses its turnkey business on 3 core application segments (1) Home Automation / Cinema rack amps, (2) PRO audio rack amps and (3) active loudspeakers for PRO.

This means that ICEpower is a project-focused company that also has a large portfolio of audio products for the wider market.

Turnkey solutions are products developed for a specific customer project, and include turnkey products, custom designs and speaker backplates. Audio products are off-the-shelf products, and include amplifier power modules, audio integrated circuits (IC) and power supplies.

Among its peers, ICEpower is the only manufacturer offering solutions to the audio industry based on own ASIC development, and the only developer that possess and masters all amplification and power supply technologies, all feedback technologies, all diagnostics and monitoring, complete mastery of continuous and short term power capabilities, DSP, software and network technologies incl. AVB.

With app. 80 employees in the center of Copenhagen, Denmark, ICEpower has the largest number of power electronics engineers at one location in the world and is a global R&D center of excellence within audio electronics.

The mission of ICEpower is "through engineering excellence and close partnering, ICEpower offers customers the highest quality and performance audio products at the best price in the market".

ICEpower has been able to prove this specific offer to turnkey customers during the last couple of years in which engineering excellence has proven better audio performance, improved sustainability and competitive pricing compared to its main competitors, the Electronic Manufacturing Suppliers (EMS) in Asia.

Management's Review

Development in the year

During the financial year of 2020/21 ICEpower experienced revenue growth on the same level as the previous 3 business years despite being strongly impacted by COVID-19 (Corona virus). During the last quarter of FY 2019/20 (March-May) and first quarter of 2020/21 (June-August) a slowdown in order intake was realised. During the remaining 2 quarters of 2020/21 the order in-take became the strongest ever in combination with the last 3 quarters of the year being characterised by an immense lack of all kinds of components and materials for the electronic industry.

The result was a lesser revenue growth than potentially could have realised and an EBT at 8,637 MKK, app. half of the level that could have been reached if the company had been able to manufacture and deliver the orders at hand.

During 2020/21 ICEpower continued winning a number of new projects - all contracted in Development and Supply Agreements for the coming years. At the same time investments in new employees have been done in all functional areas in order to accommodate the intake of new development projects for Key Accounts.

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

Considering the difficulties for the electronic industry due to COVID-19 and related impacts, management considers the result satisfactory and in line with expectations for the year.

Operating risks

The Company's revenue is primarily in USD and results in, the Company being sensitive to fluctuations in the USD exchange rate. This is partially met with currency hedging.

Targets and expectations for the year ahead

Management has considered the outbreak of the COVID-19 and its current and future potential effects on the Company. Despite the continued lack of components, and an expected higher impact on the company's two Thailand-based outsourced manufacturing facilities due to the local pandemic situation in Thailand, ICEpower expects a revenue growth above 20% and a considerable growth in EBIT for 2021/22.

During the previous two years ICEpower has won and signed a number of development projects that shall fuel the growth and earnings going forward. ICEpower estimates that finalising the projects already won and delivering accordingly to its customers shall result in a doubling of the revenue in 3 years (i. e. FY 2023/24).

The Company has a solid cash position in order to fund the Company's organic growth and operations through the financial year 2021/22 and beyond.

Management's Review

External environment

ICEpower is making a continuous effort to limit the environmental impact of the Company's activities.

The main environmental impacts related to ICEpower's activities occur in connection with the consumption of energy, raw material and related material waste.

It is ICEpower's policy to comply with applicable laws and regulations as well as on its own initiative to make progress on environmental impact. When introducing new processes, and investing in new production equipment, consideration is given to the level of safety and environmental impact, such as energy consumption and waste volumes. This ensures the least possible impact on the internal and external environment and compliance with the relevant legal requirements.

Environmental, safety and health considerations are an important part of ICEpower's business policy, and ICEpower's production partners are environmentally certified according to ISO 14 001 and Occupational Health Safety certified by OHSAS18001.

Foreign Branches

The Company is represented with branches in Taiwan and Japan.

Income Statement 1 June - 31 May

	Note	2020/21	2019/20
		TDKK	TDKK
Gross profit/loss		**67,980**	**67,321**
Staff expenses	1	-38,956	-32,832
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-24,469	-20,770
Profit/loss before financial income and expenses		**4,555**	**13,719**
Income from investments in subsidiaries	3	102	164
Financial income	4	10,345	2,996
Financial expenses	5	-6,365	-6,840
Profit/loss before tax		**8,637**	**10,039**
Tax on profit/loss for the year	6	20	-1,879
Net profit/loss for the year		**8,657**	**8,160**

Balance Sheet 31 May

Assets

	Note	2021	2020
		TDKK	TDKK
Completed development projects		42,924	47,023
Acquired licenses		1,049	1,373
Acquired other similar rights		0	0
Development projects in progress		23,561	10,906
Intangible assets	7	**67,534**	**59,302**
Plant and machinery		5,027	5,194
Other fixtures and fittings, tools and equipment		857	727
Leasehold improvements		1,375	1,002
Property, plant and equipment	8	**7,259**	**6,923**
Investments in subsidiaries	9	1,153	1,045
Deposits	10	889	554
Fixed asset investments		**2,042**	**1,599**
Fixed assets		**76,835**	**67,824**
Inventories		**5,936**	**10,029**
Trade receivables		13,545	24,156
Receivables from group enterprises		128	128
Other receivables		6,113	621
Corporation tax		288	1,835
Corporation tax receivable from group enterprises		2,632	897
Prepayments	11	863	1,072
Receivables		**23,569**	**28,709**
Cash at bank and in hand		**15,817**	**12,520**
Currents assets		**45,322**	**51,258**
Assets		**122,157**	**119,082**

Balance Sheet 31 May

Liabilities and equity

	Note	2021	2020
		TDKK	TDKK
Share capital		1,940	1,940
Reserve for net revaluation under the equity method		802	904
Reserve for development costs		34,933	26,377
Reserve for hedging transactions		593	0
Retained earnings		8,256	23,504
Proposed dividend for the year		8,657	0
Equity		**55,181**	**52,725**
Provision for deferred tax	13	12,589	12,254
Other provisions	14	2,549	400
Provisions		**15,138**	**12,654**
Other payables		2,977	2,388
Long-term debt	15	**2,977**	**2,388**
Prepayments received from customers		3,000	1,361
Trade payables		27,387	39,720
Payables to group enterprises		9,696	2,839
Deposits		468	360
Other payables	15	8,310	7,035
Short-term debt		**48,861**	**51,315**
Debt		**51,838**	**53,703**
Liabilities and equity		**122,157**	**119,082**
Distribution of profit	12		
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Statement of Changes in Equity

	Share capital	Reserve for net revaluation under the equity method	Reserve for development costs	Reserve for hedging transactions	Retained earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK	TDKK
Equity at 1 June	1,940	904	26,377	0	23,504	0	52,725
Exchange adjustments	0	6	0	0	0	0	6
Extraordinary dividend paid	0	0	0	0	-6,800	0	-6,800
Fair value adjustment of hedging instruments, end of year	0	0	0	760	0	0	760
Tax on adjustment of hedging instruments for the year	0	0	0	-167	0	0	-167
Development costs for the year	0	0	30,281	0	-30,281	0	0
Depreciation, amortisation and impairment for the year	0	0	-21,725	0	21,725	0	0
Net profit/loss for the year	0	-108	0	0	108	8,657	8,657
Equity at 31 May	**1,940**	**802**	**34,933**	**593**	**8,256**	**8,657**	**55,181**

Notes to the Financial Statements

		2020/21	2019/20
		TDKK	TDKK
1	**Staff expenses**		
	Wages and salaries	36,087	30,182
	Pensions	2,522	2,336
	Other social security expenses	347	314
		38,956	**32,832**
	Including remuneration to the Executive Board	**2,231**	**2,422**
	Average number of employees	**52**	**45**
2	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	22,411	18,889
	Depreciation of property, plant and equipment	2,069	1,881
	Gain and loss on disposal	-11	0
		24,469	**20,770**
3	**Income from investments in subsidiaries**		
	Share of profits of subsidiaries	102	164
		102	**164**
4	**Financial income**		
	Other financial income	160	350
	Exchange adjustments	10,185	2,646
		10,345	**2,996**

Notes to the Financial Statements

		2020/21	2019/20
		TDKK	TDKK
5	**Financial expenses**		
	Other financial expenses	991	995
	Exchange adjustments, expenses	5,374	5,845
		6,365	**6,840**

		2020/21	2019/20
6	**Tax on profit/loss for the year**		
	Current tax for the year	-288	-1,735
	Deferred tax for the year	168	3,714
	Adjustment of tax concerning previous years	100	0
	Adjustment of deferred tax concerning previous years	0	-100
		-20	**1,879**

Notes to the Financial Statements

7 Intangible assets

	Completed development projects	Acquired licenses	Acquired other similar rights	Development projects in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 June	141,953	3,178	1,533	10,906	157,570
Additions for the year	7,008	362	0	23,273	30,643
Transfers for the year	10,618	0	0	-10,618	0
Cost at 31 May	159,579	3,540	1,533	23,561	188,213
Impairment losses and amortisation at 1 June	94,930	1,805	0	0	96,735
Amortisation for the year	21,725	686	1,533	0	23,944
Impairment losses and amortisation at 31 May	116,655	2,491	1,533	0	120,679
Carrying amount at 31 May	**42,924**	**1,049**	**0**	**23,561**	**67,534**

The Company's development projects relate to development of new products, as well as continued development, improvements and upgrading of the Company's existing products.

The development, improvement and upgrading is completed on an ongoing basis and the projects are ready for use upon completion. The products form the basis of a large part of the Company's existing business, hence, there are markets and customers for the products. Projects in progress, consist of supplementary products as well as customer-specific products; hence, there is a market herefore.

The improvements and upgrades are expected to have lives of three to five years which are considered to reflect the useful lives.

The projects are progressing according to plan through the use of the resources allocated by Management to the development.

Notes to the Financial Statements

8 Property, plant and equipment

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
	TDKK	TDKK	TDKK	TDKK
Cost at 1 June	11,060	6,726	2,141	19,927
Additions for the year	1,209	376	820	2,405
Disposals for the year	0	-32	0	-32
Cost at 31 May	12,269	7,070	2,961	22,300
Impairment losses and depreciation at 1 June	5,866	5,999	1,139	13,004
Depreciation for the year	1,376	246	447	2,069
Reversal of impairment and depreciation of sold assets	0	-32	0	-32
Impairment losses and depreciation at 31 May	7,242	6,213	1,586	15,041
Carrying amount at 31 May	**5,027**	**857**	**1,375**	**7,259**

9 Investments in subsidiaries

	2021	2020
	TDKK	TDKK
Cost at 1 June	141	141
Cost at 31 May	141	141
Value adjustments at 1 June	904	740
Exchange adjustment	6	0
Net profit/loss for the year	102	164
Value adjustments at 31 May	1,012	904
Carrying amount at 31 May	**1,153**	**1,045**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
ICEpower USA	San Diego	25.000 USD	100%	1,152,738	101,899

Notes to the Financial Statements

10 Other fixed asset investments

	Deposits
	TDKK
Cost at 1 June	554
Additions for the year	335
Cost at 31 May	889
Carrying amount at 31 May	**889**

11 Prepayments

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

12 Distribution of profit

	2020/21	2019/20
	TDKK	TDKK
Extraordinary dividend paid	6,800	0
Proposed dividend for the year	8,657	0
Reserve for net revaluation under the equity method	-108	164
Retained earnings	-6,692	7,996
	8,657	**8,160**

13 Provision for deferred tax

	2020/21	2019/20
Provision for deferred tax at 1 June	12,254	8,804
Amounts recognised in the income statement for the year	168	3,450
Amounts recognised in equity for the year	167	0
Provision for deferred tax at 31 May	**12,589**	**12,254**

Notes to the Financial Statements

14 Other provisions

The Company provides warranties of 1 to 5 years on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions of DKK 500k (2020: DKK 400k) have been recognised for expected warranty claims.

Furthermore DKK 2.049k in provision have been recognized for a specific warranty claim in FY 2020/21.

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:

	2021	2020
	TDKK	TDKK
Other payables		
Between 1 and 5 years	2,977	2,388
Long-term part	2,977	2,388
Other short-term payables	8,310	7,035
	11,287	**9,423**

Notes to the Financial Statements

	2021	2020
	TDKK	TDKK

16 Contingent assets, liabilities and other financial obligations

Charges and security

The following assets have been placed as security with mortgage credit institutes:
For assurance of all accounts with Financial institute, credit facility totalling DKK 20,000k, are given floating charge in all assets except accounts receivables. Financial institutes are given floating charge in accounts receivables

Inventory totalling DKK 5,936k at external partner will be subject to a lien for any unpaid charges and advances.

Rental and lease obligations

	2021	2020
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	2,166	1,574
Between 1 and 5 years	4,218	4,845
	6,384	**6,419**

Other contingent liabilities

ICEpower A/S is jointly and severally liable for tax on the ICEpower Group's jointly taxed income from May 1, 2016.

There are no further security and contingent liabilitites at 31 May 2021, other than what is normal in the line of business.

17 Related parties

Consolidated Financial Statements

The Company is included in the Group Annual Report of the Parent Company

Name	Place of registered office
ICEpower Holding ApS	Søborg, Danmark

Notes to the Financial Statements

18 Accounting Policies

The Annual Report of ICEpower A/S for 2020/21 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Financial Statements for 2020/21 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 ICEpower Holding 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 ICEpower Holding ApS, the Company has not prepared a cash flow statement.

Recognition and measurement

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

All 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.

Notes to the Financial Statements

18 Accounting Policies (continued)

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Hedge accounting

Changes in the fair values of financial instruments that are designated and qualify as fair value hedges of a recognised asset or a recognised liability are recognised in the income statement as are any changes in the fair value of the hedged asset or the hedged liability related to the hedged risk.

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Changes in the fair values of financial instruments that are designated and qualify as hedges of net investments in independent foreign subsidiaries or associates are recognised directly in equity as regards the effective portion of the hedge, whereas the ineffective portion is recognised in the income statement.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

Revenue from license and royalty agreements is recognised as risks and rewards transfer during the course of the underlying agreement.

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

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 indirect production costs and 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, development performed for own account, recognised in assets, 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.

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 items include interest, amortization and allowance, fair value adjustments and realized and unrealized foreign exchange adjustments.

Notes to the Financial Statements

18 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 Danish group company. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Patents and licences are measured at the lower of cost less accumulated amortisation and recoverable amount. Patents are amortised over the remaining patent period, and licences are amortised over the licence period; however not exceeding 5 years.

Development projects are measured initially at cost. The cost of development projects comprises costs, including salaries and depreciation directly attributable to the development projects, which are necessary to complete the project, from the date when the development project first qualifies for recognition as an asset. Reimbursements and grants for development projects are deducted from the cost in line with the completion.

Completed development projects are amortised over the expected useful life. The amortisation period is normally 3 - 6 years. For development projects protected by intellectual property rights, the maximum amortisation period is the remaining term of the rights.

An amount corresponding to the capitalised development projects in the Balance Sheet, which have been incurred after 1 January 2016, has been recognised under Equity as “Reserve for development costs”. The reserve is reduced with amortisation of development projects.

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.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction.

Notes to the Financial Statements

18 Accounting Policies (continued)

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 - 10 years
Other equipment	8 - 10 years
Leasehold Improvements	3 - 10 years

The fixed assets' residual values are determined at nil.

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount. If so, the asset is written down to its lower recoverable amount.

The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Investments in subsidiaries

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.

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

Other fixed asset investments

Other fixed asset investments consist of deposits.

Notes to the Financial Statements

18 Accounting Policies (continued)

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.

Receivables

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

Prepayments

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

Equity

Dividend

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

Provisions

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

Other provisions include warranty obligations in respect of repair work within the warranty period. Provisions are measured and recognised based on experience with guarantee work.

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.

Notes to the Financial Statements

18 Accounting Policies (continued)

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.

Debts

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

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	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$