

RE Microphones Holding ApS

Gydevang 42-44

3450 Allerød

Central Business Registration

No 25382714

Annual report 2016/17

The Annual General Meeting adopted the annual report on 10.07.2017

Chairman of the General Meeting

Name: Karsten Langer

Contents

	<u>Page</u>
Entity details	1
Statement by Management on the annual report	2
Independent auditor's report	3
Management commentary	6
Consolidated income statement for 2016/17	8
Consolidated balance sheet at 30.04.2017	9
Consolidated statement of changes in equity for 2016/17	11
Consolidated cash flow statement for 2016/17	12
Notes to consolidated financial statements	13
Parent income statement for 2016/17	18
Parent balance sheet at 30.04.2017	19
Parent statement of changes in equity for 2016/17	21
Notes to parent financial statements	22
Accounting policies	24

Entity details

Entity

RE Microphones Holding ApS
Gydevang 42-44
3450 Allerød

Central Business Registration No: 25382714
Registered in: Allerød
Financial year: 01.05.2016 - 30.04.2017

Board of Directors

Karsten Langer, chairman
Jonathan Alexander Roos

Executive Board

Karl Kristian Nielsen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
Postboks 1600
0900 København C

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of RE Microphones Holding ApS for the financial year 01.05.2016 - 30.04.2017.

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

In our opinion, the consolidated financial statements give a true and fair view of the Group's and the Parent's financial position at 30.04.2017 and of the results of their operations and consolidated cash flows for the financial year 01.05.2016 - 30.04.2017.

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

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

Allerød, 10.07.2017

Executive Board

Karl Kristian Nielsen

Board of Directors

Karsten Langer
chairman

Jonathan Alexander Roos

Independent auditor's report

To the shareholders of RE Microphones Holding ApS

Opinion

We have audited the consolidated financial statements and the parent financial statements of RE Microphones Holding ApS for the financial year 01.05.2016 - 30.04.2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 30.04.2017, and of the results of their operations and the consolidated cash flows for the financial year 01.05.2016 - 30.04.2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements

Independent auditor's report

can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

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

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

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

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

Copenhagen, 10.07.2017

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No: 33963556

Nikolaj Thomsen
State Authorised Public Accountant

Management commentary

	<u>2016/17</u> <u>DKK'000</u>	<u>2015/16</u> <u>DKK'000</u>	<u>2014/15</u> <u>DKK'000</u>	<u>2013/14</u> <u>DKK'000</u>
Financial highlights				
Key figures				
Gross profit	95.844	92.714	73.801	22.407
Operating profit/loss	22.787	22.211	19.168	23
Net financials	(8.780)	(8.070)	(6.807)	(2.867)
Profit/loss for the year	7.506	7.623	823	(6.923)
Total assets	305.021	304.491	312.007	309.436
Investments in property, plant and equipment	3.242	4.984	(4.095)	(48.086)
Equity incl minority interests	89.030	151.523	142.593	142.434
Employees in average	174	155	154	123
Ratios				
Return on equity (%)	6,2	5,2	0,6	(4,9)
Equity ratio (%)	29,2	49,8	45,7	46,0

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

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

Management commentary

Primary activities

The company's main activity is direct or indirect ownership in companies with activity into development, production and marketing of microphones and associated equipment.

Development in activities and finances

The income statement of the Group for 2016/17 shows a profit of TDKK 7,506. At 30 April 2017 the balance sheet of the Group shows equity of TDKK 89,030.

Management considers the profit as satisfactory and in accordance with latest announced expectations. The company's business activities develop positively.

To ensure ideal owner structure, the company has acquired 38,500 treasury shares in 2016/17.

Outlook

The company expects the financial year 2017/18 to continue with increased sales and is planning new product launches during the year.

Results are expected to be above the level of last year.

Environmental performance

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

Consolidated income statement for 2016/17

	<u>Notes</u>	<u>2016/17 DKK'000</u>	<u>2015/16 DKK'000</u>
Gross profit	1	95.844	92.714
Distribution costs	1	(36.882)	(32.811)
Administrative costs	1	(36.175)	(37.692)
Operating profit/loss		22.787	22.211
Other financial income		249	1
Other financial expenses	2	(9.029)	(8.071)
Profit/loss before tax		14.007	14.141
Tax on profit/loss for the year	3	(6.501)	(6.518)
Profit/loss for the year	4	7.506	7.623

Consolidated balance sheet at 30.04.2017

	<u>Notes</u>	<u>2016/17 DKK'000</u>	<u>2015/16 DKK'000</u>
Completed development projects		3.964	4.185
Acquired trademarks		727	723
Goodwill		197.167	192.389
Development projects in progress		7.653	4.652
Intangible assets	5	<u>209.511</u>	<u>201.949</u>
Land and buildings		21.256	21.940
Other fixtures and fittings, tools and equipment		7.083	7.386
Leasehold improvements		850	713
Property, plant and equipment	6	<u>29.189</u>	<u>30.039</u>
Other investments		31	31
Deposits		542	508
Fixed asset investments	7	<u>573</u>	<u>539</u>
Fixed assets		<u>239.273</u>	<u>232.527</u>
Raw materials and consumables		12.664	12.272
Work in progress		19.418	12.034
Manufactured goods and goods for resale		9.564	9.668
Inventories		<u>41.646</u>	<u>33.974</u>
Trade receivables		19.841	23.242
Other receivables		34	21
Prepayments	8	1.855	1.504
Receivables		<u>21.730</u>	<u>24.767</u>
Cash		<u>2.372</u>	<u>13.223</u>
Current assets		<u>65.748</u>	<u>71.964</u>
Assets		<u>305.021</u>	<u>304.491</u>

Consolidated balance sheet at 30.04.2017

	<u>Notes</u>	<u>2016/17</u> <u>DKK'000</u>	<u>2015/16</u> <u>DKK'000</u>
Contributed capital		200	200
Reserve for development expenditure		5.116	0
Retained earnings		83.714	151.323
Equity		89.030	151.523
Deferred tax		5.399	5.068
Other provisions		700	700
Provisions		6.099	5.768
Mortgage debts		10.172	10.730
Debt to other credit institutions		150.765	47.337
Non-current liabilities other than provisions	9	160.937	58.067
Current portion of long-term liabilities other than provisions	9	11.384	50.187
Trade payables		8.931	11.841
Income tax payable		8.953	4.977
Other payables		19.687	22.128
Current liabilities other than provisions		48.955	89.133
Liabilities other than provisions		209.892	147.200
Equity and liabilities		305.021	304.491
Financial instruments	11		
Unrecognised rental and lease commitments	12		
Mortgages and securities	13		

Consolidated statement of changes in equity for 2016/17

	Contributed capital DKK'000	Reserve for development expenditure DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	200	0	151.323	151.523
Purchase of treasury shares	0	0	(70.000)	(70.000)
Exchange rate adjustments	0	0	(315)	(315)
Fair value adjustments of hedging instruments	0	0	317	317
Transfer to reserves	0	5.116	(5.116)	0
Profit/loss for the year	0	0	7.505	7.505
Equity end of year	200	5.116	83.714	89.030

Consolidated cash flow statement for 2016/17

	<u>Notes</u>	<u>2016/17 DKK'000</u>	<u>2015/16 DKK'000</u>
Operating profit/loss		22.787	22.211
Amortisation, depreciation and impairment losses		17.550	15.900
Working capital changes	10	(10.020)	4.841
Cash flow from ordinary operating activities		30.317	42.952
Financial income received		472	1
Financial income paid		(9.238)	(8.073)
Income taxes refunded/(paid)		(2.194)	(2.137)
Cash flows from operating activities		19.357	32.743
Acquisition etc of intangible assets		(21.032)	(2.619)
Acquisition etc of property, plant and equipment		(3.242)	(4.980)
Sale of property, plant and equipment		12	0
Acquisition of fixed asset investments		(13)	134
Cash flows from investing activities		(24.275)	(7.465)
Loans raised		70.567	0
Instalments on loans etc		(6.500)	(28.268)
Acquisition of treasury shares		(70.000)	0
Cash flows from financing activities		(5.933)	(28.268)
Increase/decrease in cash and cash equivalents		(10.851)	(2.990)
Cash and cash equivalents beginning of year		13.223	16.213
Cash and cash equivalents end of year		2.372	13.223

Notes to consolidated financial statements

	2016/17 DKK'000	2015/16 DKK'000
1. Staff costs		
Wages and salaries	76.940	74.906
Pension costs	6.315	5.674
Other social security costs	2.145	900
	85.400	81.480
Average number of employees	174	155
	Remunera- tion of manage- ment 2016/17 DKK'000	Remunera- tion of manage- ment 2015/16 DKK'000
Total amount for management categories	5.843	9.238
	5.843	9.238

Special incentive programmes

Warrants have been issued to members of the board and the Management, which entitles the holders to buy shares in the company for a nominal value of DKK 1. The exercise of the subscription rights must take place no later than 01.01.2025 to an exercise price of DKK 1 per share. The total number of issued warrants are 16.484.

	2016/17 DKK'000	2015/16 DKK'000
2. Other financial expenses		
Interest expenses	8.106	7.215
Exchange rate adjustments	0	856
Other financial expenses	923	0
	9.029	8.071
	2016/17 DKK'000	2015/16 DKK'000
3. Tax on profit/loss for the year		
Tax on current year taxable income	4.766	5.308
Change in deferred tax for the year	1.167	1.255
Adjustment concerning previous years	568	(45)
	6.501	6.518

Notes to consolidated financial statements

			<u>2016/17</u> <u>DKK'000</u>	<u>2015/16</u> <u>DKK'000</u>
4. Proposed distribution of profit/loss				
Retained earnings			7.506	7.623
			<u>7.506</u>	<u>7.623</u>
	Completed develop- ment projects DKK'000	Acquired trademarks DKK'000	Goodwill DKK'000	Develop- ment projects in progress DKK'000
5. Intangible assets				
Cost beginning of year	7.379	943	217.799	4.652
Transfers	1.366	0	0	(1.366)
Additions	0	109	15.668	5.255
Disposals	0	0	0	(888)
Cost end of year	<u>8.745</u>	<u>1.052</u>	<u>233.467</u>	<u>7.653</u>
Amortisation and impairment losses beginning of year	(3.194)	(220)	(25.410)	0
Amortisation for the year	(1.587)	(105)	(10.890)	0
Amortisation and impairment losses end of year	<u>(4.781)</u>	<u>(325)</u>	<u>(36.300)</u>	<u>0</u>
Carrying amount end of year	<u>3.964</u>	<u>727</u>	<u>197.167</u>	<u>7.653</u>

Development projects in progress

Recognition and measurement of development projects is not based on special assumptions.

Notes to consolidated financial statements

	Land and buildings DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Leasehold improve- ments DKK'000
6. Property, plant and equipment			
Cost beginning of year	27.990	28.035	1.298
Additions	46	2.851	345
Disposals	0	(265)	0
Cost end of year	28.036	30.621	1.643
Depreciation and impairment losses beginning of the year	(6.050)	(20.649)	(585)
Depreciation for the year	(730)	(3.142)	(208)
Reversal regarding disposals	0	253	0
Depreciation and impairment losses end of the year	(6.780)	(23.538)	(793)
Carrying amount end of year	21.256	7.083	850

	Other investments DKK'000	Deposits DKK'000
7. Fixed asset investments		
Cost beginning of year	31	508
Exchange rate adjustments	0	21
Additions	0	13
Cost end of year	31	542
Carrying amount end of year	31	542

8. Prepayments

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

	Instalments within 12 months 2016/17 DKK'000	Instalments within 12 months 2015/16 DKK'000	Instalments beyond 12 months 2016/17 DKK'000
9. Liabilities other than provisions			
Mortgage debts	515	41.893	10.172
Debt to other credit institutions	10.869	8.294	150.765
	11.384	50.187	160.937

Notes to consolidated financial statements

	<u>2016/17</u> <u>DKK'000</u>	<u>2015/16</u> <u>DKK'000</u>
10. Change in working capital		
Increase/decrease in inventories	(7.672)	(980)
Increase/decrease in receivables	3.023	(2.929)
Increase/decrease in trade payables etc	(5.371)	8.653
Other changes	0	97
	<u>(10.020)</u>	<u>4.841</u>

Notes to consolidated financial statements

11. Financial instruments

Derivates	Start date	End date	Ref. interest	Fixed interest rate	Currency	Notional amount DKK'000	Fair value DKK'000
Currency interest rate swap agreement	11.12.2007	31.12.2017	Cibor 6	4,65%	EUR	4.691	(156)
Currency interest rate swap agreement	11.12.2007	31.12.2037	Cibor 6	6,79%	EUR	7.037	(2.909)
Interest rate swap agreement	18.02.2014	30.06.2017	Cibor 6	0,98%	DKK	28.000	(144)
Interest rate swap agreement	18.02.2014	30.06.2017	Cibor 6	1,02%	DKK	19.293	(104)
Interest rate swap agreement	19.08.2014	31.10.2019	Cibor 6	-0,065%	DKK	109.000	(16)
Total fair value							(3.329)

12. Unrecognised rental and lease commitments

	2016/17 DKK'000	2015/16 DKK'000
Hereof liabilities under rental or lease agreements until maturity in total	10.000	9.500

13. Mortgages and securities

Security

The following assets have been placed as security with Danske Bank:

Floating charge in simple claims, inventory, other fixtures and fittings, tools and equipment and acquired trademarks amounting to TDKK 20,000.

Mortgage deed in Industrivangen 10, 4550 Asnæs amounting to TDKK 4,500.

Charge in unlisted shares in DPA Microphones A/S amounting to a nominal value of TDKK 1,040.

Contingent liabilities

DPA Microphones A/S has entered a guarantee for RE Microphones ApS liabilities. The guarantee amounts to TDKK 163,500.

RE Microphones ApS has guaranteed for DPA Microphones A/S to Danske Bank for its liabilities amounting to TDKK 16,395.

Parent income statement for 2016/17

	<u>Notes</u>	<u>2016/17 DKK'000</u>	<u>2015/16 DKK'000</u>
Gross profit		0	0
Administrative costs		(556)	(2)
Operating profit/loss		(556)	(2)
Income from investments in group enterprises		70.000	0
Other financial expenses		(14)	0
Profit/loss before tax		69.430	(2)
Tax on profit/loss for the year		126	0
Profit/loss for the year	2	69.556	(2)

Parent balance sheet at 30.04.2017

	<u>Notes</u>	<u>2016/17 DKK'000</u>	<u>2015/16 DKK'000</u>
Investments in group enterprises		150.000	150.000
Fixed asset investments	3	<u>150.000</u>	<u>150.000</u>
Fixed assets		<u>150.000</u>	<u>150.000</u>
Receivables from group enterprises		39	38
Income tax receivable		126	0
Receivables		<u>165</u>	<u>38</u>
Current assets		<u>165</u>	<u>38</u>
Assets		<u>150.165</u>	<u>150.038</u>

Parent balance sheet at 30.04.2017

	<u>Notes</u>	<u>2016/17 DKK'000</u>	<u>2015/16 DKK'000</u>
Contributed capital	4	200	200
Retained earnings		149.219	149.663
Equity		<u>149.419</u>	<u>149.863</u>
Payables to group enterprises		726	155
Other payables		20	20
Current liabilities other than provisions		<u>746</u>	<u>175</u>
Liabilities other than provisions		<u>746</u>	<u>175</u>
Equity and liabilities		<u>150.165</u>	<u>150.038</u>
Mortgages and securities	5		
Related parties with controlling interest	6		
Transactions with related parties	7		

Parent statement of changes in equity for 2016/17

	Contributed capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity beginning of year	200	149.663	149.863
Purchase of treasury shares	0	(70.000)	(70.000)
Profit/loss for the year	0	69.556	69.556
Equity end of year	200	149.219	149.419

Notes to parent financial statements

1. Special incentive programmes

Warrants have been issued to members of the board and the Management, which entitles the holders to buy shares in the company for a nominal value of DKK 1. The exercise of the subscription rights must take place no later than 01.01.2025 to an exercise price of DKK 1 per share. The total number of issued warrants are 16.484.

	2016/17 DKK'000	2015/16 DKK'000
2. Proposed distribution of profit/loss		
Retained earnings	69.556	(2)
	69.556	(2)
		Investment s in group enterprises DKK'000
3. Fixed asset investments		
Cost beginning of year		150.000
Cost end of year		150.000
Carrying amount end of year		150.000

	Registered in	Corpo- rate form	Equity inte- rest %	Equity DKK'000	Profit/loss DKK'000
Investments in Group subsidiaries:					
RE Microphones ApS	Allerød, Denmark	ApS	100,0	94.083	20.110
DPA Microphones A/S	Allerød, Denmark	ApS	100,0	48.966	24.548
DPA Microphones Inc.	Colorado, USA	Inc	100,0	11.315	1.851
DPA Microphones Ltd.	Hong Kong	Ltd	100,0	96	(47)

Notes to parent financial statements

	<u>Number</u>	<u>Nominal value DKK'000</u>	<u>Share of contributed capital %</u>	<u>Purchase / (selling)- price DKK'000</u>
4. Treasury shares				
Treasury shares acquired:				
Shares (ApS)	38.500	1	19,3	70.000
	38.500	1	19,3	
Holding of treasury shares:				
Shares (ApS)	38.500	1	19,3	
	38.500	1	19,3	

5. Mortgages and securities

Collateral securities provided for subsidiaries and group enterprises

RE Microphones Holding ApS guarantees for the Groups' external sources of funding, which amounts to TDKK 179,895.

The Entity is jointly and severally liable with the jointly registered group enterprises for the total VAT payable.

6. Related parties with controlling interest

REF IV Luxemborg Luxembourg S.ár.l., is a related party with controlling interest.

7. Transactions with related parties

There has been no transactions with related parties which has not been on market conditions.

Accounting policies

Reporting class

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

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year with the exception of amortisation of goodwill, which is presented under gross profit/loss.

Recognition and measurement

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

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

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

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

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

Consolidated financial statements

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

Basis of consolidation

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

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

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

Accounting policies

Income statement

Gross profit or loss

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

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Production costs

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

Cost of sales

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

Distribution costs

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

Administrative costs

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

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Income from investments in group enterprises

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

Other financial income from group enterprises

Other financial income from group enterprises comprises interest income etc on receivables from group enterprises.

Accounting policies

Other financial income

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

Financial expenses from group enterprises

Financial expenses from group enterprises comprise interest expenses etc from payables to group enterprises.

Other financial expenses

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

Tax on profit/loss for the year

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

The company is jointly taxed with wholly owned Danish subsidiaries. The tax effect of the joint taxation with the subsidiaries is allocated to Danish enterprises showing profits or losses in proportion to their taxable incomes (full allocation with credit for tax losses).

Balance sheet

Goodwill

Goodwill is the positive difference between cost and value in use of assets and liabilities taken over as part of the acquisition. Goodwill is amortised straight-line over its estimated useful life which is fixed based on the experience gained by Management for each business area. Useful lives are reassessed on an annual basis. The amortisation periods used are 20 years.

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

Intellectual property rights etc

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

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

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

Accounting policies

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

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

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

Property, plant and equipment

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

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

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

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

Estimated useful lives and residual values are reassessed annually.

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

Investments in group enterprises

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

Other investments

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

Inventories

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

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

Accounting policies

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

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

Receivables

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

Prepayments

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

Cash

Cash comprises cash in hand and bank deposits.

Deferred tax

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

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

Other provisions

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

Mortgage debt

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

Operating leases

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

Accounting policies

Other financial liabilities

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

Income tax receivable or payable

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

Cash flow statement

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

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

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

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

Cash and cash equivalents comprise cash.