RE Microphones Holding ApS

Gydevang 42-44, DK-3450 Allerød

Annual Report for 1 May 2015 - 30 April 2016

CVR No 25 38 27 14

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 29/7 2016

Anders Ørjan Jensen
Chairman

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Management’s Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of RE Microphones Holding ApS for the financial year 1 May 2015 - 30 April 2016.

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

In our opinion the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 30 April 2016 of the Company and the Group and of the results of the Company and Group operations and cash flows for 2015/16.

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Allerød, 22 July 2016

Executive Board

Thorsten Reuber
Executive Officer

Board of Directors

Karsten Langer Chairman	Martin Gösta Gustafsson	Christian Poulsen

Independent Auditor's Report on the Financial Statements and the Consolidated Financial Statements

To the Shareholder of RE Microphones Holding ApS

Report on the Financial Statements and the Consolidated Financial Statements

We have audited the Financial Statements and the Consolidated Financial Statements of RE Microphones Holding ApS for the financial year 1 May 2015 - 30 April 2016, which comprise income statement, balance sheet, cash flow statement, notes and summary of significant accounting policies. The Financial Statements and the Consolidated Financial Statements are prepared in accordance with the Danish Financial Statements Act.

Management's Responsibility for the Financial Statements and the Consolidated Financial Statements

Management is responsible for the preparation of Financial Statements and the Consolidated 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 and Consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Financial Statements and the Consolidated Financial Statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Financial Statements and the Consolidated Financial Statements are free from material misstatement.

An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Financial Statements and the Consolidated Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Financial Statements and the Consolidated Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of Financial Statements and Consolidated Financial Statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the Financial Statements and the Consolidated Financial Statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Our audit has not resulted in any qualification.

Independent Auditor's Report on the Financial Statements and the Consolidated Financial Statements

Opinion

In our opinion, the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position of the Company and the Group at 30 April 2016 and of the results of the Company and the Group operations and cash flows for the financial year 1 May 2015 - 30 April 2016 in accordance with the Danish Financial Statements Act.

Statement on Management's Review

We have read Management's Review in accordance with the Danish Financial Statements Act. We have not performed any procedures additional to the audit of the Financial Statements and the Consolidated Financial Statements. On this basis, in our opinion, the information provided in Management's Review is in accordance with the Financial Statements and the Consolidated Financial Statements.

Hellerup, 22 July 2016
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

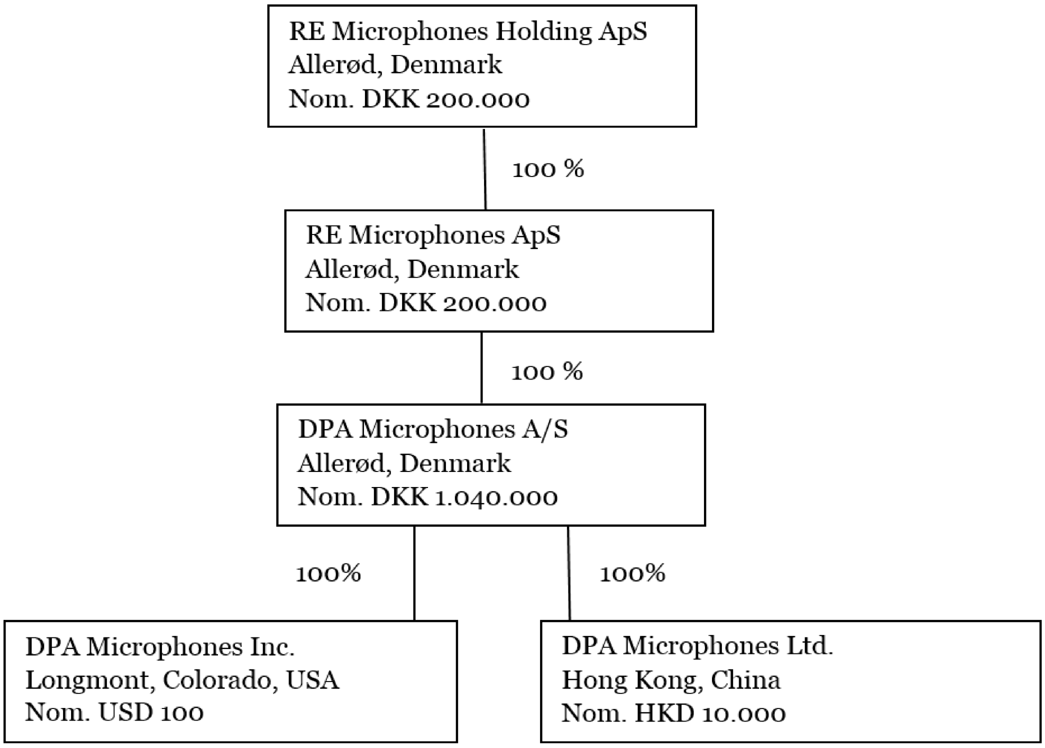
Jacob F Christiansen
State Authorised Public Accountant

Henrik Y. Jensen
State Authorised Public Accountant

Company Information

The Company	RE Microphones Holding ApS Gydevang 42-44 DK-3450 Allerød CVR No: 25 38 27 14 Financial period: 1 May - 30 April Municipality of reg. office: Allerød
Board of Directors	Karsten Langer, Chairman Martin Gösta Gustafsson Christian Poulsen
Executive Board	Thorsten Reuber
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup
Banks	Danske Bank, Finanscenter Sjælland Nord Munkeengen 30 3400 Hillerød

Group Chart


RE Microphones Holding ApS
Allerød, Denmark
Nom. DKK 200.000
100 %
RE Microphones ApS
Allerød, Denmark
Nom. DKK 200.000
100 %
DPA Microphones A/S
Allerød, Denmark
Nom. DKK 1.040.000
100%
100%
DPA Microphones Inc.
Longmont, Colorado, USA
Nom. USD 100
DPA Microphones Ltd.
Hong Kong, China
Nom. HKD 10.000

Financial Highlights

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

	Group		
	2015/16	2014/15	6. december 2013 30. april 2014
	TDKK	TDKK	TDKK
Key figures			
Profit/loss			
Gross profit/loss	103.604	73.801	22.407
Operating profit/loss	33.101	19.168	23
Profit/loss before financial income and expenses	22.211	8.278	-3.607
Net financials	-8.070	-6.807	-2.867
Net profit/loss for the year	7.623	823	-6.923
Balance sheet			
Balance sheet total	304.491	312.007	309.436
Equity	151.523	142.593	142.434
Cash flows			
Cash flows from:			
- operating activities	32.743	8.200	-1.443
- investing activities	-7.465	-7.517	-238.097
including investment in property, plant and equipment	-4.980	-7.781	-222.021
Number of employees	155	154	123
Ratios			
Return on assets	7,3%	2,7%	-1,2%
Solvency ratio	49,8%	45,7%	46,0%
Return on equity	5,2%	0,6%	-4,9%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management’s Review

Consolidated and Parent Company Financial Statements of RE Microphones Holding ApS for 2015/16 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Consolidated and Parent Company Financial Statements have been prepared under the same accounting policies as last year.

Main activity

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 the year

The income statement of the Group for 2015/16 shows a profit of TDKK 7,623, and at 30 April 2016 the balance sheet of the Group shows equity of TDKK 151,523.

Management considers the profit as a satisfactory level. The company's business activities develop positively.

CEO Christian Poulsen has resigned his position in January 2016. New CEO as of 26th January 2016 is Thorsten Reuber.

Targets and expectations for the year ahead

The Group expects the financial year 2016/17 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.

External environment

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).

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 May - 30 April

	Note	Group 2015/16 TDKK	Group 2014/15 TDKK	Parent 2015/16 TDKK	Parent 2014/15 TDKK
Gross profit/loss		**103.604**	**73.801**	**0**	**0**
Distribution expenses		-32.811	-26.967	0	0
Administrative expenses		-37.692	-27.666	-2	-101
Operating profit/loss		**33.101**	**19.168**	**-2**	**-101**
Amortisation of goodwill		-10.890	-10.890	0	0
Profit/loss before financial income and expenses		**22.211**	**8.278**	**-2**	**-101**
Financial income	2	1	1.894	0	0
Financial expenses	3	-8.071	-8.701	0	0
Profit/loss before tax		**14.141**	**1.471**	**-2**	**-101**
Tax on profit/loss for the year	4	-6.518	-648	0	23
Net profit/loss for the year		**7.623**	**823**	**-2**	**-78**

Distribution of profit

Proposed distribution of profit

	Parent 2015/16 TDKK	Parent 2014/15 TDKK
Proposed dividend for the year	0	0
Retained earnings	-2	-78
	-2	**-78**

Balance Sheet 30 April

Assets

		Group		Parent	
	Note	2015/16	2014/15	2015/16	2014/15
		TDKK	TDKK	TDKK	TDKK
Completed development projects		4.185	4.682	0	0
Acquired trademarks		723	603	0	0
Goodwill		192.389	203.278	0	0
Development projects in progress		4.652	3.111	0	0
Intangible assets	5	**201.949**	**211.674**	**0**	**0**
Land and buildings		21.940	22.431	0	0
Other fixtures and fittings, tools and equipment		7.386	6.184	0	0
Leasehold improvements		713	0	0	0
Property, plant and equipment	6	**30.039**	**28.615**	**0**	**0**
Investments in subsidiaries	7	0	0	150.000	150.000
Other investments		31	31	0	0
Deposits		508	642	0	0
Fixed asset investments		**539**	**673**	**150.000**	**150.000**
Fixed assets		**232.527**	**240.962**	**150.000**	**150.000**
Inventories	8	**33.974**	**32.993**	**0**	**0**
Trade receivables		23.242	19.379	0	0
Receivables from group enterprises		0	0	38	38
Other receivables		21	225	0	0
Deferred tax asset	10	0	0	0	3
Prepayments		1.504	2.235	0	0
Receivables		**24.767**	**21.839**	**38**	**41**
Cash at bank and in hand		**13.223**	**16.213**	**0**	**0**
Currents assets		**71.964**	**71.045**	**38**	**41**
Assets		**304.491**	**312.007**	**150.038**	**150.041**

Balance Sheet 30 April

Liabilities and equity

	Note	Group 2015/16 TDKK	Group 2014/15 TDKK	Parent 2015/16 TDKK	Parent 2014/15 TDKK
Share capital		200	200	200	200
Retained earnings		151.323	142.393	149.663	149.665
Equity	9	**151.523**	**142.593**	**149.863**	**149.865**
Provision for deferred tax	10	5.068	3.859	0	0
Other provisions		700	700	0	0
Provisions		**5.768**	**4.559**	**0**	**0**
Credit institutions		58.067	63.344	0	0
Other loans		0	68.340	0	0
Long-term debt	11	**58.067**	**131.684**	**0**	**0**
Mortgage loans	11	471	494	0	0
Credit institutions		7.823	4.344	0	1
Other loans	11	41.893	0	0	0
Trade payables		11.841	7.514	0	0
Payables to group enterprises		0	0	155	94
Corporation tax		4.977	1.805	0	0
Financial instruments		3.653	4.857	0	0
Other payables		18.475	14.157	20	81
Short-term debt		**89.133**	**33.171**	**175**	**176**
Debt		**147.200**	**164.855**	**175**	**176**
Liabilities and equity		**304.491**	**312.007**	**150.038**	**150.041**

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Cash Flow Statement 1 May - 30 April

		Group		Parent	
	Note	2015/16	2014/15	2015/16	2014/15
		TDKK	TDKK	TDKK	TDKK
Net profit/loss for the year		7.623	823	-2	-78
Adjustments	14	30.585	26.061	-1	0
Change in working capital	15	4.744	-8.324	-61	80
Cash flows from operating activities before financial income and expenses		**42.952**	**18.560**	**-64**	**2**
Financial income		1	1.894	0	0
Financial expenses		-8.073	-8.701	0	0
Cash flows from ordinary activities		**34.880**	**11.753**	**-64**	**2**
Corporation tax paid		-2.137	-3.553	0	0
Cash flows from operating activities		**32.743**	**8.200**	**-64**	**2**
Purchase of intangible assets		-2.619	-3.299	0	0
Purchase of property, plant and equipment		-4.980	-4.482	0	0
Change in financial assets		134	264	0	0
Cash flows from investing activities		**-7.465**	**-7.517**	**0**	**0**
Repayment of mortgage loans		-23	33	0	0
Repayment of loans from credit institutions		-1.798	-18.996	-1	-2
Repayment of payables to group enterprises		0	0	65	0
Repayment of other long-term debt		-26.447	19.355	0	0
Cash flows from financing activities		**-28.268**	**392**	**64**	**-2**
Change in cash and cash equivalents		**-2.990**	**1.075**	**0**	**0**
Cash and cash equivalents at 1 May		16.213	15.138	0	0
Cash and cash equivalents at 30 April		**13.223**	**16.213**	**0**	**0**

Notes to the Financial Statements

	Group		Parent	
	2015/16	2014/15	2015/16	2014/15
	TDKK	TDKK	TDKK	TDKK

1 Staff

Wages and Salaries	74.906	65.927	0	0
Pensions	5.674	5.283	0	0
Other social security expenses	900	1.658	0	0
	81.480	**72.868**	**0**	**0**
Wages and Salaries, pensions and other social security expenses are recognised in the following items:				
Production expenses	53.341	50.438	0	0
Distribution expenses	13.525	12.425	0	0
Administrative expenses	14.614	10.005	0	0
	81.480	**72.868**	**0**	**0**
Including remuneration to the Executive Board and Board of Directors:				
Executive Board	8.534	3.186	0	0
Board of Directors	704	548	0	0
	9.238	**3.734**	**0**	**0**
Average number of employees	**155**	**154**	**0**	**0**

2 Financial income

Other financial income	1	64	0	0
Exchange adjustments	0	1.830	0	0
	1	**1.894**	**0**	**0**

3 Financial expenses

Other financial expenses	7.215	8.404	0	0
Exchange adjustments, expenses	856	297	0	0
	8.071	**8.701**	**0**	**0**

Notes to the Financial Statements

	Group		Parent	
	2015/16	2014/15	2015/16	2014/15
	TDKK	TDKK	TDKK	TDKK

4 Tax on profit/loss for the year

Current tax for the year	5.308	3.562	-4	-23
Deferred tax for the year	1.255	-3.055	4	0
Adjustment of deferred tax concerning previous years	-45	141	0	0
	6.518	**648**	**0**	**-23**

5 Intangible assets

Group

	Completed development projects	Acquired trade-marks	Goodwill	Development projects in progress
	TDKK	TDKK	TDKK	TDKK
Cost at 1 May	6.516	729	217.799	3.111
Additions for the year	0	214	0	2.442
Disposals for the year	0	0	0	-38
Transfers for the year	863	0	0	-863
Cost at 30 April	7.379	943	217.799	4.652
Impairment losses and amortisation at 1 May	1.834	126	14.520	0
Amortisation for the year	1.360	94	10.890	0
Impairment losses and amortisation at 30 April	3.194	220	25.410	0
Carrying amount at 30 April	**4.185**	**723**	**192.389**	**4.652**

Notes to the Financial Statements

6 Property, plant and equipment

Group

	Land and buildings	Other fixtures and fittings, tools and equipment	Leasehold improvements
	TDKK	TDKK	TDKK
Cost at 1 May	27.761	24.043	535
Additions for the year	229	3.992	763
Cost at 30 April	27.990	28.035	1.298
Impairment losses and depreciation at 1 May	5.329	17.864	535
Depreciation for the year	721	2.785	50
Impairment losses and depreciation at 30 April	6.050	20.649	585
Carrying amount at 30 April	**21.940**	**7.386**	**713**
Including assets under finance leases amounting to	0	40	0

7 Investments in subsidiaries

	Parent	
	2015/16	2014/15
	TDKK	TDKK
Cost at 1 May	150.000	150.000
Cost at 30 April	150.000	150.000
Carrying amount at 30 April	**150.000**	**150.000**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
RE Microphones ApS	Allerød, Denmark	200.000	100%	144.699.774	1.677.676

Notes to the Financial Statements

	Group		Parent	
	2015/16	2014/15	2015/16	2014/15
	TDKK	TDKK	TDKK	TDKK
8 Inventories				
Raw materials and consumables	12.272	11.380	0	0
Work in progress	12.034	14.674	0	0
Finished goods and goods for resale	9.668	6.939	0	0
	33.974	**32.993**	**0**	**0**

9 Equity

Group

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 May	200	142.393	142.593
Exchange adjustments relating to foreign entities	0	104	104
Fair value adjustment of hedging instruments, beginning of year	0	4.896	4.896
Fair value adjustment of hedging instruments, end of year	0	-3.693	-3.693
Net profit/loss for the year	0	7.623	7.623
Equity at 30 April	**200**	**151.323**	**151.523**

Parent

	Share capital	Retained earnings	Total
	TDKK	TDKK	TDKK
Equity at 1 May	200	149.665	149.865
Net profit/loss for the year	0	-2	-2
Equity at 30 April	**200**	**149.663**	**149.863**

The share capital consists of 200,000 shares of a nominal value of TDKK 1. No shares carry any special rights.

The share capital have been increased by TDKK 100 in 2013.

Notes to the Financial Statements

10 Provision for deferred tax

	Group		Parent	
	2015/16	2014/15	2015/16	2014/15
	TDKK	TDKK	TDKK	TDKK
Intangible assets	2.103	1.847	0	0
Property, plant and equipment	1.902	1.689	0	0
Inventories	967	967	0	0
Trade receivables	-64	-73	0	0
Amortization	246	-93	0	0
Leasing	9	11	0	0
Provision for refurbishment	-154	-154	0	0
Tax loss carry-forward	59	-335	0	-3
Transferred to deferred tax asset	0	0	0	3
Deferred tax asset	**5.068**	**3.859**	**0**	**0**

11 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:

	Group		Parent	
	2015/16	2014/15	2015/16	2014/15
	TDKK	TDKK	TDKK	TDKK
Credit institutions				
After 5 years	8.630	10.051	0	0
Between 1 and 5 years	49.437	53.293	0	0
Long-term part	58.067	63.344	0	0
Within 1 year	6.000	4.344	0	0
Other short-term debt to credit institutions	1.823	0	0	1
Short-term part	7.823	4.344	0	1
	65.890	**67.688**	**0**	**1**
Other loans				
After 5 years	0	68.340	0	0
Long-term part	0	68.340	0	0
Within 1 year	41.893	0	0	0
	41.893	**68.340**	**0**	**0**

Notes to the Financial Statements

11 Long-term debt (continued)

	Group		Parent	
	2015/16	2014/15	2015/16	2014/15
	TDKK	TDKK	TDKK	TDKK

12 Contingent assets, liabilities and other financial obligations

Security

The following assets have been placed as security with mortgage credit institutes:

	2015/16	2014/15	2015/16	2014/15
Mortgage deed in Industrivangen 10, 4550 Asnæs	21.940	22.431	0	0

Floating charge in simple claims, inventory, other fixtures and fittings, tools and equipment and acquired trademarks amountng to MDKK 20.

For credit facilities with a credit institution, unlisted shares in DPA Microphones A/S with a nominal value of TDKK 1,040 and unlisted shares in RE Microphones ApS with a nominal value of TDKK 200 have been pledged as collateral.

Notes to the Financial Statements

12 Contingent assets, liabilities and other financial obligations (continued)

Contingent liabilities

RE Microphones Holding ApS is jointly taxed with other Danish subsidiaries. The Group companies are jointly and severally liable for tax on the Group's jointly taxed income.

DPA Microphones A/S has entered an operational leasing contract in a period up to 46 months. The leasing liability amounts to MDKK 1.1 for this period.

DPA Microphones A/S has entered a tenancy agreement with a period of non-terminability of 53 months. The tenancy liability in this period amounts to MDKK 6.0.

DPA Microphones Inc. has entered a tenancy agreement with a period of non-terminability of 31 months. The tenancy liability in this period amounts to MDKK 1.4.

DPA MIcrophones Ltd. has entered a tenancy agreement with a period of non-terminability of 21 months. The tenancy liability in this period amounts to MDKK 1.0.

13 Related parties and ownership

	Basis
Controlling interest	
REF IV Luxemborg S.á.r.l	Main shareholder
Other related parties	
Christian Poulsen Holding ApS	Shareholder
Lars Thomas Blomqvist, Valevägen 39A, 182 64 Djursholm, Sverige	Board member
Christian Poulsen, Bredgade 77 5 th, 1260 København K	Board member
Martin Gösta Gustafsson, Wallingatan 9, 111 60 Stockholm, Sverige	Board member

Notes to the Financial Statements

13 Related parties and ownership (continued)

Ownership

The following shareholder is recorded in the Company's register of shareholders as holding at least 5% of the votes or at least 5% of the share capital:

REF IV Luxemborg S.á.r.l
Christian Poulsen Holding ApS

	Group		Parent	
	2015/16	2014/15	2015/16	2014/15
	TDKK	TDKK	TDKK	TDKK
14 Cash flow statement - adjustments				
Financial income	-1	-1.894	0	0
Financial expenses	8.071	8.701	0	0
Depreciation, amortisation and impairment losses, including losses and gains on sales	15.900	14.981	0	0
Tax on profit/loss for the year	6.518	-648	0	-23
Other adjustments	97	4.921	-1	23
	30.585	**26.061**	**-1**	**0**

15 Cash flow statement - change in working capital

Change in inventories	-980	-4.959	0	0
Change in receivables	-2.929	-4.274	0	-20
Change in trade payables, etc	8.653	909	-61	100
	4.744	**-8.324**	**-61**	**80**

Accounting Policies

Basis of Preparation

The Annual Report of RE Microphones Holding ApS for 2015/16 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.

Consolidated and Parent Company Financial Statements for 2015/16 are presented in TDKK.

Recognition and measurement

Revenues are recognised in the income statement as earned based on the following criteria:

- Delivery has occured before the end of the financial year
- A binding sales contract exists
- The terms and price of sales are determined
- At the time of recognition of revenue, payment has been received or can with reasonable certainty be expected

Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions.

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.

Financial assets and liabilities are measured at amortised cost.

Recognition and measurement take into account predictable losses and risks occurring before the presentation of the Annual Report which confirm or invalidate affairs and conditions existing at the balance sheet date.

Accounting Policies

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, RE Microphones Holding ApS, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Business combinations

Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Group.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Derivative financial instruments

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

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

Accounting Policies

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.

The income statement for the foreign subsidiaries, which are separate entities, are translated at the average exchange rates during the financial year. The balance sheet is translated at the exchange rate of the balance sheet date. Exchange adjustments occuring due to translation of equity at the beginning of the year and exchange adjustments ocurring due to translation of the income statement at the balance sheet date are recognised directly in equity.

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.

Should the hedged transaction result in an income or expense, the deferred amount in equity are transferred from equity to the income statement in the period in which the hedged transaction is recognized. The amount is recognized in the same item as the hedged transaction.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report. Gross profit/loss contains revenue less production expenses recognized as specified below.

Accounting Policies

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 Group.

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

Production expenses

Production expenses comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Production expenses also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertisingand amrketing expenses as well as operation of motor vehicles, depriciation etc.

Production expenses also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised.

Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Group, including gains and losses on the sale of intangible assets and property, plant and equipment. Furthermore it includes amortisation of goodwill that does not relate to production-, distribution- or administrative costs.

Income from investments in subsidiaries

Dividends from subsidiaries are recognised as income in the income statement when adopted at the General Meeting of the subsidiary. However, dividends relating to earnings in the subsidiary before it was acquired by the Parent Company are set off against the cost of the subsidiary.

Accounting Policies

Financial income and expenses

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

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and deferred tax for the year. The tax attributable to the profit for year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

Any changes in deferred tax due to changes to tax rates are recognised in the income statement. Current tax is calculated using the current tax ratefor the year.

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

Balance Sheet

Intangible assets

Intangible assets contain goodwill, development projects and acquired trademarks. Trademarks are measured at the lower of cost less accumulated amortisation and recoverable amount.

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 20 years.

Development projects, which are clearly defined and identifiable and where the technical utilisation, sufficient resources and a potential future market or opportunity for development in the Company exist, and where intention is to manufacture, market or utilise the product or process, are recognised as intangible assets provided sufficient certainty exists that future revenues can cover production, distribution and administration expenses as well as the accumulated development costs. Other development costs are recognized as expenses in the income statement as incurred.

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

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. In the case of assets of own construction, cost comprises direct and indi-

Accounting Policies

rect expenses for labour, materials, components and sub-suppliers.

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

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:

Production buildings	10-50	years
Other tools and equipment	3-10	years
Leasehold improvements	10	years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 12,900 are expensed in the year of acquisition.

Impairment of fixed assets

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

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Where cost exceeds the recoverable amount, write-down is made to this lower value.

The item in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of any remaining value of positive differences (goodwill) and deduction of any remaining value of negative differences (negative goodwill).

Financial assets

Financial asset investments, which consist of unlisted shares and deposits, are measured at cost at the balance sheet date.

Inventories

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

Accounting Policies

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable, and in respect of trade receivables, a general provision is also made based on the Company's experience from previous years.

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 Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Accounting Policies

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

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

Financial debts

Loans, such as mortgage loans and loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

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

Cash Flow Statement

The cash flow statement shows the Group´s and the Parent Company´s cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group´s and the Parent Company´s cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items

Accounting Policies

included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand".

The cash flow statement cannot be immediately derived from the published financial records.

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