

# **Milestone Group A/S**

*CVR 25 70 61 45*

## **Annual Report 2017**

The annual report 2017 was presented  
and adopted at the company's Annual  
General Meeting on 16<sup>th</sup> March 2018



David Bateson  
Chairman of the meeting

**Milestone Group A/S,**  
Banemarksvej 50C, DK-2605 Brøndby, Denmark  
Tel: +45 88 300 300

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## **Financial Statements**

### **January 1<sup>st</sup> – December 31<sup>st</sup> 2017**

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# Management's Statement

The Executive Management and Board of Directors have today considered and adopted the Annual Report of Milestone Group A/S for the financial year January 1<sup>st</sup> – December 31<sup>st</sup> 2017.

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 December 31<sup>st</sup> 2017 of the Company and the Group and of the results of the Company and Group operations and Group cash flows for 2017.

The management review contains, in our opinion, a fair statement of the facts to which it relates and describes the Group's significant risks and uncertainties.

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

Copenhagen, March 16<sup>th</sup> 2018

## Executive Management



Lars Thinggaard

## Board of Directors



Lau Normann  
Chairman



John Sergio Blem



Henrik Friberg Jacobsen



Jeppe Frandsen



Peter Bo Jacobsen  
Employee elected



Artur Gevorkovic Magalan  
Employee elected

# Independent Auditor's Reports

To the Shareholder of Milestone Group A/S

## Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2017, and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Milestone Group A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of change in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows ("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 Group 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 Financial Statements Act.

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

# Independent Auditor's Reports

## Management's Responsibilities for the Financial Statements

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

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

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance 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 judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

## Independent Auditor's Reports

- 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.
- 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.

Copenhagen, March 16<sup>th</sup> 2018

### **PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

CVR No. 33 77 12 31



Jens Otto Damgaard  
State Authorised Public Accountant  
mne9231



Allan Knudsen  
State Authorised Public Accountant  
mne29465

## Company Information

<b>The Company</b>	<p>Milestone Group A/S Banemarksvej 50C DK-2605 Brøndby Denmark</p> <p>Telephone: (+45) 8830 0300 Website: <a href="http://www.milestonesys.com">www.milestonesys.com</a> CVR no / VAT no: DK25706145 Fiscal year: January 1<sup>st</sup> – December 31<sup>st</sup> Domicile: Brøndby, Denmark</p>
<b>Board of Directors</b>	<p>Lau Normann (Chairman) John Sergio Blem Henrik Friberg Jacobsen Jeppe Frandsen Peter Bo Jacobsen (employee elected) Artur Gevorkovic Magaljan (employee elected)</p>
<b>Executive Management</b>	<p>Lars Thinggaard (President &amp; CEO)</p>
<b>Legal Counsel</b>	<p>Kromann Reumert Sundkrogsgade 5 DK 2100 København Ø</p>
<b>Auditors</b>	<p>PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK 2900 Hellerup</p>
<b>Bankers</b>	<p>Nordea Bank A/S Vesterbrogade 8 DK 0900 København C</p>
<b>General Meeting</b>	<p>The annual general meeting will be held at Banemarksvej 50C, DK-2605 Brøndby on March 16<sup>th</sup> 2018</p>

## Financial highlights

During the last five years, the development of the company is described by the following financial highlights:

Consolidated DKK 1,000

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
<b>Profit &amp; Loss</b>					
Net revenue	881,138	709,037	602,423	457,891	406,969
Gross profit before external expenses	808,756	651,126	567,960	440,488	392,539
Gross profit	643,414	510,431	440,699	303,758	319,868
Operating income before depreciation and amortization (EBITDA)	245,978	120,841	121,284	39,237	90,082
Operating income (EBIT)	170,671	49,276	64,222	-14,752	47,870
Net financials	-16,743	1,048	10,852	12,846	-6,653
Net income	116,722	41,349	57,964	108	34,116
<b>Balance Sheet</b>					
Balance sheet total	931,561	748,517	630,160	497,527	399,673
Investment in tangible assets	13,793	11,450	11,276	5,870	6,597
Equity	482,852	339,695	293,625	244,073	209,972
<b>Cash Flow Statement</b>					
Cash Flow operating activities	140,166	2,392	135,937	85,356	112,305
Cash Flow investing activities	-95,223	-96,380	-88,830	-59,849	-67,611
Cash Flow financing activities	0	0	-2,941	48,686	168
Change in cash and cash equivalents	44,943	-93,988	44,166	74,193	44,862
<b>Employees</b>					
Average no. of full-time employees	586	569	472	404	389
<b>Key Figures</b>					
Gross margin before external expenses	91.8%	91.8%	94.3%	96.2%	96.5%
Gross margin	73.0%	72.0%	73.2%	66.3%	78.6%
EBITDA margin	27.9%	17.0%	20.1%	8.6%	22.1%
EBIT margin	19.4%	6.9%	10.7%	-3.2%	11.8%
Financial solidity	1.9	2.2	2.1	2.0	1.9
Return on Equity	28.4%	13.1%	21.6%	0.0%	18.2%



# Management's Review

## Main Activities and Market

Milestone Systems is a global leader in the video management software ("VMS") industry, which is a segment of the video surveillance equipment market. The company operates as a standalone company in the Canon Group with headquarters in Denmark and subsidiaries in thirteen countries.

## Financial Developments

In 2017, Milestone increased net revenue by 24.3% compared to 2016. This resulted in a total net revenue of DKK 881 million.

Milestone increased its 2017 net revenue by DKK 172 million and achieved an EBITDA (earnings before interest, tax, depreciation and amortization) of DKK 246 million compared to DKK 121 million in 2016, this represents an increase of 103 %. The increase is influenced by the compensation awarded by the Arbitration Court. Profit before corporate tax was DKK 154 million in 2017.

The total Balance Sheet for Milestone as of December 31st 2017 was DKK 932 million compared to DKK 749 million on December 31st 2016. Total equity was DKK 483 million at the end of 2017 compared to DKK 340 million at the end of 2016.

Milestone's financial position is considered sufficient.

In 2017, Milestone provided significant and satisfactory financial results in the international markets.

The Group's financial results for 2017 were better than the company expectations, partly due to the compensation awarded by the Arbitration Court.

## Development Project Activities

Development activities are mainly carried out at the parent company. In 2017, Milestone Systems maintained the trend of increasing investments in Research and Development (R&D) activities. The Milestone Systems product road map and development projects support the ambition to continue to be a leader in the open platform video management software industry.

The major part of the development activities involves staffing and Information Technology (IT) costs. The product related development cost is capitalized as an intangible fixed asset in accordance with the Danish Financial Statements Act.

## Arbitration against a former OEM-Partner

In 2016, the Danish Arbitration Court awarded Milestone Systems compensation as a result of an OEM agreement which was terminated in 2015. The counterpart did not recognize the ruling of the Arbitration Court and appealed against the award. Milestone Systems filed an enforcement claim in the United States. In 2017, the U.S. Court ruled in favor of Milestone Systems, and the compensation has been recognized in the income statement for 2017. In the financial statement for 2016, the compensation was presented as a contingent asset.

## **Knowledge Resources**

To maintain Milestones status as a leader in the industry, it is crucial that the Group is able to recruit and retain employees with high technical and commercial skills.

Milestone is focusing on retention and development of employees by demonstrating respect for the individual, creating a motivating workplace, and offering opportunities for professional and personal development.

## **Risks**

96% of Milestone Systems' revenue is generated from international business activities and transactions in either EUR or USD currencies. Consequently, cash flow and equity are influenced by the development in international currency exchange rates.

It is Milestone Group's policy to cover commercial currency risks. The USD exposure is partially covered by a cash flow hedge and partially by maintaining a significant part of the Group's cost base in USD. For EUR, the Group has a limited currency exchange risk due to the Exchange Rate Mechanism II (ERMII) treaty between Denmark and the European Union.

No speculative currency positions were taken.

## **Report on Corporate Social Responsibility**

### ***(The Danish Financial Statement Act §99a)***

Milestone Systems A/S has not an independent politic for social responsibility including climate impact, environment and human rights.

## **Legal Compliance**

In 2017, Milestone Systems A/S continued to require that all authorized channel partners do not sell Milestone solutions for use in ways that would abuse human rights, or break international laws or embargos.

Hardware suppliers are requested to use materials that are compliant with international standards for safe materials and environmental impact. Milestone continues to monitor materials that may conflict these standards by asking suppliers to provide information about their products and sources.

Milestone Systems A/S does not have an independent policy for climate impact and human rights.

## **Report on the Gender Distribution in Management**

### ***(The Danish Financial Statement Act §99b)***

As an international organization, Milestone recognizes the value of a diverse workforce that brings varied experiences, ideas and innovation to the workplace. Milestone, collaborates across the organization and benefits from knowledge sharing between culturally diverse groups and the company always looks for the best-suited candidate for each position.

The Board of Directors acknowledge the importance of diversity in general, including international experience and gender, both in connection with new appointments and the annually evaluation of the composition of Board of Directors. The Board has set a target that no later than 2021, there will be one female member among the shareholder-elected Board members. The composition of the Board of Directors is reviewed on an annual basis and in 2017, the composition has not changed compared to 2016. The Board has currently no female shareholder-elected members.

In 2017, the percentage of women in senior management was 18%, the same percentage as in 2016. The People & Organization Team continued to ensure that diversity of gender is an integrated part of the company's talent review, leadership development and recruitment activities for management positions across the organization.

### **Expectations for 2018**

Industry analysts expect continued growth in the video surveillance equipment market and Milestone Systems expects to further strengthen its global market leadership position. The Company's revenue growth will be driven by a continued expansion of Milestone Systems' competitive portfolio of innovative surveillance products, including both Video Management Software and Network Video Recorders, as well as its international business ecosystem of channel partners, camera vendors, technology, and solution partners.

As in 2017, Milestone systems A/S is expecting to see a continuing growth in invoiced revenue, as well as net revenue. Costs are not expected to grow at the same rate as the revenue, resulting in an improved EBITDA as well.

### **Subsequent Events**

Reference is made to note 1 for further details of events after the balance sheet date.

# Accounting Policies

The company's accounting policies applied in the preparation of the consolidated financial statements and the financial statements of the parent company are set out below.

## **Basis of preparation**

The Annual Report for Milestone Group A/S for 2017 has been prepared in accordance with the provisions of the Danish Financial Statements Act. The Annual Report is presented in accordance with the reporting provisions for large Class C enterprises.

The financial statements has been prepared using the historical cost convention.

The accounting policies are unchanged compared to the previous year.

## **Consolidation financial statement**

The consolidated financial statement includes the financial statement of Milestone Group A/S (the Parent Company) and all the companies in which Milestone Group A/S, at the balance sheet date, directly or indirectly holds more than 50% of the voting rights or in any other way has a controlling influence (subsidiaries). Milestone Group A/S and these companies are referred to as the Group.

The consolidated financial statement is based on the financial statement of the Parent Company and the subsidiaries and is prepared by combining items of a uniform nature and eliminating intercompany transactions, shareholdings, balances and unrealized intercompany profit and losses. The consolidated financial statement is based on financial statements prepared by applying the Group accounting policies.

Non-controlling interests in the Net income and equity are shown separately in the consolidated income statement, balance sheet and statement of changes in equity respectively.

## **Foreign currencies**

Transactions in foreign currencies are translated during the year at the exchange rates prevailing on transaction date.

Receivables, payables and other items in foreign currencies that have not been settled at

balance sheet date are translated at the exchange rates prevailing on balance sheet date.

Realized and unrealized exchange rate adjustments are recognized in financial income and expenses in the income statement.

## **Tax on profit for the year, corporation tax and deferred tax**

Tax for the year consists of current tax and deferred tax. The tax charge on profit for the year is recognized in the income statement, whereas the tax attributable to equity entries is recognized directly in equity.

Current tax is calculated at the tax rate applicable for the year.

The company is not jointly taxed with its foreign subsidiaries.

Current tax receivables are recognized in the balance sheet if taxes on account have been overpaid whereas current tax liabilities are recognized as short-term debt insofar as they have not been paid.

Deferred tax is recognized in the balance sheet as the tax on all temporary differences and tax loss carry forward. Deferred tax is calculated on the basis of legislation applicable for the financial year at the rate that will apply at the time when it is expected to be realized.

Deferred tax assets are measured at the value at which the asset is expected to be realized.

## **Derivative financial instruments and hedging activities**

Derivatives are recognized at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

## Accounting Policies

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

### Net revenue

Revenues are recognized in the income statement provided that delivery and transfer of risk have been made to the purchaser by year-end. Revenues are recognized exclusive of VAT and net of discounts offered on sales.

### Cost of sales

Cost of sales comprises the finished products consumed in achieving revenues for the year.

### Other income

Other operating income comprise items of a secondary nature relative to the core activities of the enterprises.

### Other external expenses

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

### Staff expenses

Staff expenses comprises wages and salaries as well as payroll dependent expenses. Government grants received are deducted based on the percentage completion of the projects they relate to.

### Amortization and depreciation

Amortization and depreciation comprises amortization and depreciation of fixed assets and gains/losses on regular replacement of fixed assets.

### Results from investments in subsidiaries

Milestones share of results from subsidiaries are stated in the income statement.

### Financial income and expenses

Financial income and expenses include interest, realized and unrealized currency adjustments.

## Balance Sheet

### Development projects

Costs for development projects include salaries, depreciation and other expenses that are directly or indirectly attributable to the company's development activities.

Clearly defined and identifiable development projects are stated as intangible fixed assets provided that there is sufficient certainty that the capital value of future earnings will cover sales, marketing and administrative costs as well as actual development costs.

Development costs that do not satisfy the criteria for inclusion in the balance sheet are stated as costs in the Income Statement as they are incurred.

Capitalized development projects are valued at cost less accumulated depreciation and amortization.

# Accounting Policies

Capitalized development projects are depreciated linearly from the date of completion over the period in which they are expected to produce financial benefits, but not exceeding five years.

## Intangible and tangible fixed assets

Other plant, operating equipment, fixtures and fittings as well as goodwill and software purchases are measured at cost less accumulated depreciation and less any accumulated impairment losses. Cost comprises the cost of acquisition and expenses directly related to acquisition and commissioning costs.

Depreciation of a fixed asset commences when it is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Software	3-5 years
Other plant, fixtures and equipment	3-5 years

The residual value is determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognized. In case of changes in the residual value, the effect on the depreciation charges is recognized prospectively as a change in accounting estimates.

## Financial fixed Assets

Investments in subsidiaries are recognized and measured after the net asset value convention.

The balance sheet include the proportionate ownership share of the net asset value of the subsidiary. The total net revaluation is transferred upon distribution of profit to "reserve for net revaluation under the equity method".

The reserve is reduced by dividend distributed to the parent company and adjusted for other equity movement in the subsidiaries. Investments with a negative net assets value are recognized at DKK 0.

Any legal or constructive obligation of the parent company to recover the negative balance is recognized as provisions.

## Impairment of fixed assets

The carrying amounts of fixed assets are reviewed annually to determine whether there is any indication of impairment other than that expressed by amortization and depreciation. If so, the asset is written down to its lower recoverable amount.

The recoverable value of the asset is calculated as the higher of net sales price and value in use. Where it is impossible to set a recoverable amount for an individual asset, assets should be valued as a whole for the smallest group of assets for which a reliable recoverable amount can be determined.

## Receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

## Prepayments

Prepayments include costs paid relating to subsequent financial years and are measured at cost.

## Equity

### Reserve for net revaluation according to the equity method

The reserve comprises net revaluations of investments in subsidiaries compared to the cost price.

## Debt

Other debt is recognized at cost at the date of contracting the debt. It is then subsequently stated at amortized cost, which usually corresponds to nominal value for short-term and non-interest-bearing debt.

# Accounting Policies

## Deferred income

Deferred income is recorded as liabilities consisting of payments received relating to revenue in subsequent periods.

## Cash Flow Statement

The cash flow statement shows the Group'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 cash and cash equivalents at the beginning and end of the year.

No cash flow statement has been prepared for the parent Company as the parent company cash flows are included in the Consolidated Cash Flow Statement.

## 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,

amortization and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

## Cash flows from investing activities

Cash flows from investing activities comprises 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 comprises 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 comprises "Cash at bank and in hand" and "Credit institutions".

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

## Definition

Gross margin before external expenses	=	$\frac{\text{Gross profit before external expenses} \times 100}{\text{Net revenue}}$
Gross margin	=	$\frac{\text{Gross profit} \times 100}{\text{Net revenue}}$
EBITDA margin	=	$\frac{\text{Operating income before depreciation and amortization} \times 100}{\text{Net revenue}}$
EBIT margin	=	$\frac{\text{Operating income before interest and tax} \times 100}{\text{Net revenue}}$
Financial solidity	=	$\frac{\text{Total Assets}}{\text{Shareholders Equity}}$
Return on Equity	=	$\frac{\text{Net income for the year} \times 100}{\text{Average Shareholders Equity}}$

# Income Statement January 1<sup>st</sup> - December 31<sup>st</sup>

Parent Company DKK 1,000				Consolidated DKK 1,000	
2016	2017		Note	2017	2016
0	0	<b>Net Revenue</b>	2	<b>881.138</b>	<b>709.037</b>
0	0	Cost of sales		-72.382	-57.911
<b>0</b>	<b>0</b>	<b>Gross profit before external expenses</b>		<b>808.756</b>	<b>651.126</b>
0	0	Other income		4.011	0
-53	-236	Other external expenses	3	-169.353	-140.695
<b>-53</b>	<b>-236</b>	<b>Gross profit</b>		<b>643.414</b>	<b>510.431</b>
-190	-83	Staff expenses	4	-397.436	-389.590
<b>-243</b>	<b>-319</b>	<b>Operating income before depreciation and amortization (EBITDA)</b>		<b>245.978</b>	<b>120.841</b>
0	0	Depreciation and amortization of intangible and tangible fixed assets	5	-75.307	-71.565
<b>-243</b>	<b>-319</b>	<b>Operating income (EBIT)</b>		<b>170.671</b>	<b>49.276</b>
41.896	117.334	Result from investments in subsidiaries	11	0	0
0	120	Interest and other financial income	6	8.573	3.234
-458	-84	Interest and other financial expenses	7	-25.316	-2.186
<b>41.195</b>	<b>117.051</b>	<b>Profit before corporate tax</b>		<b>153.928</b>	<b>50.324</b>
154	-329	Corporate tax	8	-37.206	-8.975
<b>41.349</b>	<b>116.722</b>	<b>Net income</b>		<b>116.722</b>	<b>41.349</b>
<b>Net income attributable to:</b>					
41.349	116.722	Owners of Milestone Group A/S		116.722	41.349
<b>41.349</b>	<b>116.722</b>	<b>Net income</b>		<b>116.722</b>	<b>41.349</b>



## Balance Sheet December 31<sup>st</sup> 2017

### Assets

Parent Company DKK 1,000			Consolidated DKK 1,000	
2016	2017	Note	2017	2016
0	0		133.622	158.879
0	0		52.145	16.254
0	0		35.233	29.167
<b>0</b>	<b>0</b>	<b>Intangible fixed assets</b>	<b>221.000</b>	<b>204.300</b>
0	0		21.551	19.642
<b>0</b>	<b>0</b>	<b>Tangible fixed assets</b>	<b>21.551</b>	<b>19.642</b>
294.977	438.746		0	0
0	0		5.784	5.996
<b>294.977</b>	<b>438.746</b>	<b>Financial fixed assets</b>	<b>5.784</b>	<b>5.996</b>
<b>294.977</b>	<b>438.746</b>	<b>Fixed assets</b>	<b>248.335</b>	<b>229.938</b>
0	0		200.718	193.074
45.453	45.453		229.123	134.731
0	34		17.932	5.055
0	0		5.779	9.251
582	118		5.953	9.647
0	0		22.255	13.338
<b>46.035</b>	<b>45.605</b>	<b>Receivables</b>	<b>481.760</b>	<b>365.096</b>
<b>3.126</b>	<b>140</b>	<b>Cash at bank and in hand</b>	<b>201.466</b>	<b>153.483</b>
<b>49.161</b>	<b>45.745</b>	<b>Current assets</b>	<b>683.226</b>	<b>518.579</b>
<b>344.138</b>	<b>484.491</b>	<b>Assets</b>	<b>931.561</b>	<b>748.517</b>



## Statement of changes in equity

Attributable to owners of Milestone Group A/S					
	Notes	Share capital	Reserve for net revaluation according to the equity method	Retained earnings	Total
<b>Equity at January 1<sup>st</sup> 2016</b>		<b>744</b>	<b>38.387</b>	<b>254.494</b>	<b>293.625</b>
Exchange rate adjustment beginning of year				317	317
Exchange rate adjustment during year				58	58
Fair value adjustment of hedging instruments, end of year				5.572	5.572
Adjustment to deferred tax on hedging instruments, end of year				-1.226	-1.226
Net income for the year			46.618	-5.269	41.349
<b>Equity at December 31<sup>st</sup> 2016</b>		<b>744</b>	<b>85.005</b>	<b>253.946</b>	<b>339.695</b>
Exchange rate adjustment beginning of year	11			1.012	1.012
Exchange rate adjustment during year	11			-604	-604
Fair value adjustment of hedging instruments, end of year				33.368	33.368
Adjustment to deferred tax on hedging instruments, end of year				-7.341	-7.341
Net income for the year			143.769	-27.047	116.722
<b>Equity at December 31<sup>st</sup> 2017</b>		<b>744</b>	<b>228.774</b>	<b>253.334</b>	<b>482.852</b>
	2017	2016	2015	2014	2013
<b>Share capital DKK 1,000</b>	744	744	744	744	500

The share capital consists of 743,824 shares of a nominal value of DKK 1. No shares has special rights.

According to the authorisation of the General Meeting, the Board of Directors may allow the Company to acquire treasury shares up to a total holding of 10% of the nominal share capital. At December 31st 2017 treasury shares amounted to DKK 5 (2016: DKK 5).

In the financial year the Company have acquired treasury shares of a nominal amount of DKK 0 (2016: DKK 0).

## Cash Flow Statement

		Consolidated DKK 1,000	
	Note	2017	2016
Net income for the year		116.722	41.349
Adjustments	17	153.909	83.871
Change in working capital	17	-109.540	-122.369
Cash flows from operating activities before paid financial items and tax		161.091	2.851
Financial income received		8.573	3.234
Financial expenses paid		-25.316	-2.186
Cash flows from operating activities before paid tax		144.348	3.899
Corporate tax paid		-4.182	-1.507
<b>Cash flows from operating activities</b>		<b>140.166</b>	<b>2.392</b>
Investment intangible fixed assets		-81.442	-84.944
Investment tangible fixed assets		-13.793	-11.450
Sale of property, plant and equipment		12	14
<b>Cash flows from investing activities</b>		<b>-95.223</b>	<b>-96.380</b>
<b>Change in cash and cash equivalents</b>		<b>44.943</b>	<b>-93.988</b>
Cash and cash equivalents at January 1 <sup>st</sup>		153.483	248.990
Currency adjustments		3.040	-1.519
<b>Cash and cash equivalents at December 31<sup>st</sup></b>		<b>201.466</b>	<b>153.483</b>
<i>Cash and cash equivalents are specified as follows:</i>			
<i>Current asset investments</i>			
Cash at bank and in hand		201.466	153.483
<b>Cash and cash equivalents at December 31<sup>st</sup></b>		<b>201.466</b>	<b>153.483</b>

# Notes to the Annual Report

## Note 1 Subsequent Events

Milestone has decided to transfer the Arcus business into a newly formed company. The company will be owned jointly by Milestone and Canon. This decision has been made to strengthen the further development of the Arcus activity. This decision has no impact on the financial statement. No additional subsequent events have occurred after the financial year end, which could affect the company's financial situation.

## Note 2 Segment information

The revenue is segmented on the basis of where the main part of the processes and activities that generates the revenue has taken place, which follows the invoicing.

Parent Company DKK 1,000			Consolidated DKK 1,000	
2016	2017		2017	2016
		<b>Geographical segments</b>		
0	0	Net revenue Denmark	33.512	34.126
0	0	Net revenue export from Denmark	813.671	631.372
0	0	Net revenue generated outside Denmark	33.955	43.539
<b>0</b>	<b>0</b>		<b>881.138</b>	<b>709.037</b>
		<b>Product segments</b>		
0	0	Surveillance related products	881.138	709.037
<b>0</b>	<b>0</b>		<b>881.138</b>	<b>709.037</b>
		<b>Note 3 Fees to independent auditors</b>		
51	35	Statutory audit fee	401	309
0	0	Other assurance engagements	0	111
0	0	Tax advisory services	452	504
0	0	Other services	421	253
<b>51</b>	<b>35</b>		<b>1.274</b>	<b>1.177</b>
		<b>Note 4 Staff expenses</b>		
190	83	Wages and salaries	375.074	366.156
0	0	Pensions	16.750	16.045
0	0	Social contributions	31.178	29.264
0	0	Other staff expenses	31.335	27.752
0	0	Capitalized development costs	-56.901	-49.627
<b>190</b>	<b>83</b>		<b>397.436</b>	<b>389.590</b>
<b>0</b>	<b>0</b>	<b>Average number of employees</b>	<b>586</b>	<b>569</b>

Pursuant to section 98b, Section 3 of the financial Statements Act, remuneration to the Executive board is not disclosed separately.

## Notes to the Annual Report

Parent Company DKK 1,000			Consolidated DKK 1,000	
2016	2017		2017	2016
<b>Note 5 Depreciation and amortization of intangible and tangible fixed assets</b>				
0	0	Completed development projects	59.434	57.938
0	0	Other intangible assets	5.132	4.990
0	0	Other fixtures and fittings, tools and equipment	10.629	8.623
0	0	Gains and losses fixed assets	112	14
<b>0</b>	<b>0</b>		<b>75.307</b>	<b>71.565</b>
<b>Note 6 Interest and other financial income</b>				
0	120	Interest from group companies	900	346
0	0	Currency adjustments	0	2.245
0	0	Other financial interest and income	7.673	643
<b>0</b>	<b>120</b>		<b>8.573</b>	<b>3.234</b>
<b>Note 7 Interest and other financial expenses</b>				
276	57	Interest from group companies	0	0
0	20	Currency adjustments	23.275	0
182	7	Other financial interest and expenses	2.041	2.186
<b>458</b>	<b>84</b>		<b>25.316</b>	<b>2.186</b>
<b>Note 8 Tax</b>				
0	0	Current tax for the year	37.813	5.096
0	0	Adjustment current tax prior years	3.392	-2.473
-154	329	Change in deferred tax	5.693	-2.596
0	0	Adjustment deferred tax prior years	-2.351	10.174
<b>-154</b>	<b>329</b>	<b>Total tax for the year</b>	<b>44.547</b>	<b>10.201</b>
<b>Attributable to:</b>				
-154	329	Tax on profit for the year	37.206	8.975
0	0	Tax on changes in equity	7.341	1.226
<b>-154</b>	<b>329</b>	<b>Total tax for the year</b>	<b>44.547</b>	<b>10.201</b>

## Notes to the Annual Report

### Note 9 Intangible fixed assets

Consolidated - DKK 1,000

	Completed development projects	Development projects in progress	Total Development projects	Other intangible assets
Cost at January 1 <sup>st</sup> 2017	483.992	16.254	500.246	37.363
Additions for the year	20.661	49.407	70.068	11.374
Disposals for the year	0	0	0	-200
Transferred to completed	13.516	-13.516	0	0
Cost at December 31 <sup>st</sup> 2017	518.169	52.145	570.314	48.537
Depreciation and Impairment at January 1 <sup>st</sup> 2017	-325.113	0	-325.113	-8.196
Depreciation for the year	-59.434	0	-59.434	-5.132
Depreciations on disposals for the year	0	0	0	24
Depreciation and Impairment at December 31 <sup>st</sup> 2017	-384.547	0	-384.547	-13.304
<b>Carrying amount at December 31<sup>st</sup> 2017</b>	<b>133.622</b>	<b>52.145</b>	<b>185.767</b>	<b>35.233</b>

### Note 10 Tangible fixed assets

Consolidated - DKK 1,000

	Other fixtures and fittings, tools and equipment
Cost at January 1 <sup>st</sup> 2017	43.355
Currency adjustments	-1.863
Additions for the year	13.793
Disposals for the year	-2.158
Cost at December 31 <sup>st</sup> 2017	53.127
Depreciation and Impairment at January 1 <sup>st</sup> 2017	-23.713
Currency adjustments	1.027
Depreciation for the year	-10.629
Depreciations on disposals for the year	1.739
Depreciation and Impairment at December 31 <sup>st</sup> 2017	-31.576
<b>Carrying amount at December 31<sup>st</sup> 2017</b>	<b>21.551</b>

## Notes to the Annual Report

### Note 11 Financial fixed assets

Parent Company - DKK 1,000

	Investments in subsidiaries
Cost at January 1 <sup>st</sup> 2017	209.972
Cost at December 31 <sup>st</sup> 2017	209.972
Revaluations at January 1 <sup>st</sup> 2017	85.005
Changes in equity	26.027
Currency adjustment	408
Profit for the year	117.334
Revaluations at December 31 <sup>st</sup> 2017	228.774
<b>Carrying amount at December 31<sup>st</sup> 2017</b>	<b>438.746</b>

Name	Reg.office	Ownership	Share Capital
Milestone Systems A/S	Broendby, Denmark	100%	DKK 692.644
Milestone Italia S.R.L.	Milan, Italy	100%	EUR 20.000
Milestone Systems Inc	Portland, USA	100%	USD 100
Milestone Systems UK, Ltd	London, United kingdom	100%	GBP 1.000
Milestone Systems France	Paris, France	100%	EUR 10.000
Milestone Systems Pte	Singapore	100%	SGD 100,100
Milestone Systems SL	Barcelona, Spain	100%	EUR 154.800
Milestone Systems (Australia) PL	Sidney, Australia	100%	AUD 1
Milestone Systems Bulgaria	Sofia, Bulgaria	100%	BGN 25.000
Milestone Sistemas do Brasil	Sao Pãolo, Brasil	100%	BRL 308.618
Milestone India	Bangalore, India	100%	INR 100.000
Milestone Systems Sweden AB	Stockholm, Sweden	100%	SEK 25,000
Milestone Systems KK	Tokyo, Japan	100%	JPY 10,000,000
Milestone Systems Germany GmbH	Munich, Germany	100%	EUR 50,000
Arcus Holding A/S	Broendby, Denmark	100%	DKK 500,000
Arcus Global, Inc.	Irvine, USA	100%	USD 100



## Notes to the Annual Report

Parent Company			Consolidated	
DKK 1,000			DKK 1,000	
2016	2017		2017	2016
		<b>Note 12 Deferred Tax</b>		
0	0	Intangible Assets	45.752	43.207
0	0	Tangible Assets	243	-2.615
0	0	Current Assets	465	1.072
0	0	Other obligations	383	-6.104
-582	-118	Net Operating Loss	-6.383	-928
<b>-582</b>	<b>-118</b>	<b>Deferred tax</b>	<b>40.460</b>	<b>34.632</b>
		<b>Change in deferred tax</b>		
154	-464	Change in Profit and loss	1.513	2.442
0	0	Change in Equity	-7.341	-1.226
<b>154</b>	<b>-464</b>	<b>Change in deferred tax</b>	<b>-5.828</b>	<b>1.217</b>
		<b>Note 13 Deferred income</b>		
0	0	Deferred income under 1 year	146.048	131.191
0	0	Deferred income over 1 year	94.577	79.687
<b>0</b>	<b>0</b>		<b>240.625</b>	<b>210.878</b>

Long-term deferred income contains of deferred revenue from service where the company have received pre-paid payments.

### Note 14 Mortgages, securities and contingent liabilities

Consolidated and Parent Company

The Company is taxed jointly with other Danish companies in the Canon Group. The Company has unlimited and joint and several liability together with the other jointly taxed companies for Danish income tax and withholding taxes.

### Note 15 Contractual obligations

Consolidated

The Group has entered into operating leases with an average annual lease payment of DKK 3,922,000. The value of the remaining period to maturity of these leases totals DKK 5,757,000.

The Group has entered into rental agreements with an annual total rent of DKK 16,749,000 in 2017. The total obligation amount is DKK 18,660,000 for the Group.

## Note 16 Related parties

### Related parties

Milestone Group A/S have one related party with controlling interest.

Related party with significant influence in the Company is Canon Europe NV.

Milestone Group A/S is a subsidiary of Canon Europe NV (The Netherlands, Amstelveen). The ultimate parent is Canon Inc. (Japan, Tokyo).

In accordance with the Danish Financial Statements Act paragraph 98c, will Milestone Group A/S only disclose transactions, which has not occurred at market conditions.

## Note 17 Cash Flow Statement

	Consolidated DKK 1,000	
	2017	2016
<b>Cash flow statement - adjustments</b>		
Depreciation intangible and tangible assets	75.307	71.565
Interest and other financial items	16.743	-1.048
Corporate tax	37.206	8.975
Other	-1.374	-1.193
Fair value of derivatives	26.027	5.572
	<b>153.909</b>	<b>83.871</b>
<b>Cash flow statement - change in working capital</b>		
Change in receivables	-123.618	-180.865
Change in suppliers, provisions, etc	14.078	58.496
	<b>-109.540</b>	<b>-122.369</b>

## Note 18 Proposed distribution of profit

Parent Company DKK 1,000			Consolidated DKK 1,000	
2016	2017		2017	2016
-5.269	-27.047	Retained earnings	-27.047	-5.269
46.618	143.769	Reserve for net revaluation under the equity method	143.769	46.618
<b>41.349</b>	<b>116.722</b>	<b>Proposed distribution of profit</b>	<b>116.722</b>	<b>41.349</b>