

# Milestone Group A/S

*CVR 25 70 61 45*

## Annual Report 2016

The annual report 2016 was presented  
and adopted at the company's Annual  
General Meeting on 24 March 2017



David Bateson  
Chairman of the meeting

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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> 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 December 31<sup>st</sup> 2016 of the Company and the Group and of the results of the Company and Group operations and Group cash flows for 2016.

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 24<sup>th</sup> 2017

## Executive Management



Lars Thinggaard

## Board of Directors



Lau Normann  
Chairman



John Sergio Blern



Henrik Friborg Jacobsen



Jeppe Frandsen



Peter Bo Jacobsen  
Employee elected



Artur Gevorkovic Magaljan  
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 2016, 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 2016 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 2016, 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.

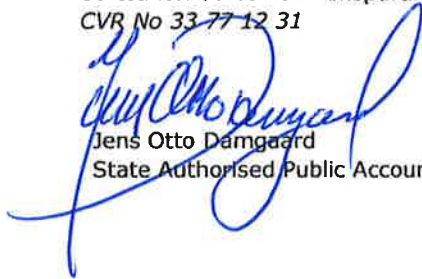
## Independent Auditor's Reports

- 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 24<sup>th</sup> 2017

**PricewaterhouseCoopers**  
Statsautoriseret Revisionspartnerselskab  
CVR No 33 77 12 31



Jens Otto Damgaard  
State Authorised Public Accountant



Allan Knudsen  
State Authorised Public Accountant

## Company Information

### The Company

Milestone Group A/S  
Banemarksvej 50  
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Denmark

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CVR no / VAT no: DK25706145  
Fiscal year: January 1<sup>st</sup> – December 31<sup>st</sup>  
Domicile: Brøndby, Denmark

### Board of Directors

Lau Normann (Chairman)  
John Sergio Blem  
Henrik Friborg Jacobsen  
Jeppe Frandsen  
Peter Bo Jacobsen (employee elected)  
Artur Gevorkovic Magaljan (employee elected)

### Executive Management

Lars Thinggaard (President & CEO)

### Legal Counsel

Kromann Reumert  
Sundkrogsgade 5  
DK 2100 København Ø

### Auditors

PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab  
Strandvejen 44  
DK 2900 Hellerup

### Bankers

Nordea Bank A/S  
Vesterbrogade 8  
DK 0900 København C

### General Meeting

The annual general meeting will be held at Banemarksvej 50, DK-2605 Brøndby on March 24<sup>th</sup> 2017

## Financial highlights

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

Consolidated DKK 1,000

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Profit &amp; Loss</b>				
Net revenue	709,037	602,423	457,891	406,969
Gross profit before external expenses	651,126	567,960	440,488	392,539
Gross profit	510,431	440,699	303,758	319,868
Operating income before depreciation and amortization (EBITDA)	120,841	121,284	39,237	90,082
Operating income (EBIT)	49,276	64,222	-14,752	47,870
Net financials	1,048	10,852	12,846	-6,653
Net income	41,349	57,964	108	34,116
<b>Balance Sheet</b>				
Balance sheet total	748,517	630,160	497,527	399,673
Investment in tangible assets	11,450	11,276	5,870	6,597
Equity	339,695	293,625	244,073	209,972
<b>Cash Flow Statement</b>				
Cash Flow operating activities	2,392	135,937	85,356	112,305
Cash Flow investing activities	-96,380	-88,830	-59,849	-67,611
Cash Flow financing activities	0	-2,941	48,686	168
Change in cash and cash equivalents	-93,988	44,166	74,193	44,862
<b>Employees</b>				
Average no. of full-time employees	581	472	404	389
<b>Key Figures</b>				
Gross margin before external expenses	91.8%	94.3%	96.2%	96.5%
Gross margin	72.0%	73.2%	66.3%	78.6%
EBITDA margin	17.0%	20.1%	8.6%	22.1%
Financial solidity	2.2	2.1	2.0	1.9
Return on Equity	13.1%	26.1%	0.0%	18.2%



# Management's Review

## Main Activities and Market

The Milestone Group is a global leader in the video management software ("VMS") industry, which is a segment of the closed circuit television ("CCTV") and video surveillance equipment market. Milestone operates as an independent software vendor with headquarters in Denmark and thirteen international offices.

In 2016, Milestone increased revenue by 17.7% compared to 2015. This resulted in a total revenue of DKK 709 million.

## Financial Developments

Milestone increased the 2016 net revenue by DKK 107 million and achieved an EBITDA (earnings before interest, tax, depreciation and amortization) of DKK 121 million compared to DKK 121 million in 2015. Profit before corporate tax in 2016 is DKK 50 million.

The total Balance Sheet for Milestone as of December 31st 2016 is DKK 749 million compared to DKK 630 million on December 31st 2015. Total equity is DKK 340 million at the end of 2016 compared to DKK 294 million at the end of 2015.

Milestone's financial position is considered sufficient.

In 2016, Milestone provided significant and satisfactory financial results in the international markets.

Milestone's financial results for 2016 are in line with company expectations.

## Development Project Activities

Development activities are mainly carried out at Milestone Systems A/S. In 2016 Milestone maintained the trend of increasing investments in R&D activities. Milestones 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 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

Milestone Systems was awarded a compensation in the Arbitration Court in Denmark as a result of an OEM-agreement which was terminated in 2015. The counterpart did not recognize the ruling of the Arbitration Court and have appealed this in the Danish court. Milestone Systems has filed an enforcement claim in the US. The US Court is expected to rule on the matter in 2017.

## 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**

95% of the Milestone's revenue is generated from international business activities and transactions in either EUR or USD. Consequently, cash flow and equity are influenced by the development in international currency exchange rates.

It is Milestone'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 Milestone's cost base in USD. For EUR Milestone has a limited currency exchange risk due to the ERMII treaty between Denmark and the EU.

No speculative currency positions are taken.

## **Statutory statement of social responsibility**

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

### **Milestone organization**

The Milestone Code of Conduct, the Milestone Behavior Compass and the Employee Handbook are key elements of the Company's corporate social responsibility program. Through the Company's global onboarding program, our employees are made aware of Milestone's procedures, policies and regulations as well as the ethical and legal standards in our industry.

Once a year through the online, Global Employee Survey, our employees evaluate Milestone against a number of parameters. The survey forms the basis of our on-going effort in sustaining a competent and motivating workplace. The results of the survey show that Milestone has a very high satisfaction and motivation score. The goal for 2016 is to continue our focus on the development of our employees' competences, to support Milestone's future business.

### **Legal compliance**

Milestone Systems A/S continued in 2016 to require that all authorized channel partners do not sell our 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 has not an independent policy for climate impact and human rights.

### **Policy gender composition of 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. In Milestone, we collaborate across the organization and benefit from knowledge sharing between culturally diverse groups. Consequently, Milestone does not discriminate on the basis of race, color, sex, religion, political opinion, sexual orientation or social origin. When hiring, we always look for the best-suited candidate for each position.

In 2016 the percentage of women senior management was 18% compared to 25% in 2015. The People & Organization Team continued in 2016 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.

The Board of Directors acknowledge the importance of diversity in general, including diversity of gender, nationality and competencies and has set the target that from 2018, at least 20% of the shareholder elected Board of Directors should be women. In connection with the appointment of board members in 2016 the best-suited candidates were elected to the board of directors. The board has currently no female member elected by the shareholders.

### **Expectations for 2017**

Industry analysts expect continued growth in the video surveillance 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 eco-system of channel partners, camera vendors, technology, and solution partners.

As in 2016, the Milestone Group 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, thus resulting in an improved EBITDA as well.

### **Subsequent Events**

Subsequent to the balance sheet date, no events that could significantly affect the financial statement as of December 31<sup>st</sup> 2016 have occurred.

## 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 2016 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 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.

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.

# Accounting Policies

## 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
Vehicles	6 years

## 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.

## 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.

## 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.

## 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.

## 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.

# Accounting Policies

## **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.

# Accounting Policies

## Definition

Gross margin before external expenses	=	$\frac{\text{Gross profit before external expenses} \times 100}{\text{Net revenue}}$
Gross margin	=	$\frac{\text{Gross profit} \times 100}{\text{Net revenue}}$
EDITDA margin	=	$\frac{\text{Operating income before depreciation and amortization} \times 100}{\text{Net revenue}}$
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	
2015	2016	Note	2016	2015
0	0			
0	0			
<b>0</b>	<b>0</b>			
-24	-53			
<b>-24</b>	<b>-53</b>			
-167	-190			
<b>-191</b>	<b>-243</b>			
0	0			
<b>-191</b>	<b>-243</b>			
58,262	41,896			
28	0			
-194	-458			
<b>57,905</b>	<b>41,195</b>			
59	154			
<b>57,964</b>	<b>41,349</b>			
57,964	41,349			
-	-			
<b>57,964</b>	<b>41,349</b>			
<b>Proposed distribution of profit</b>				

## Balance Sheet December 31<sup>st</sup> 2016

### Assets

Parent Company DKK 1,000			Consolidated DKK 1,000		
2015	2016	Note	2016	2015	
0	0		158,879	165,194	
0	0		16,254	3,911	
0	0		29,167	13,179	
<b>0</b>	<b>0</b>	<b>Intangible fixed assets</b>	<b>4</b>	<b>204,300</b>	<b>182,284</b>
0	0	Other fixtures and fittings, tools and equipment	19,642	16,858	
<b>0</b>	<b>0</b>	<b>Tangible fixed assets</b>	<b>5</b>	<b>19,642</b>	<b>16,858</b>
248,359	294,977	Investments in subsidiaries	6	0	0
0	0	Deposits		5,996	4,267
<b>248,359</b>	<b>294,977</b>	<b>Financial fixed assets</b>		<b>5,996</b>	<b>4,267</b>
<b>248,359</b>	<b>294,977</b>	<b>Fixed assets</b>		<b>229,938</b>	<b>203,409</b>
0	0	Trade receivables		193,074	139,594
0	45,453	Receivables from group enterprises		134,731	0
0	0	Other receivables		5,055	10,091
0	0	Prepaid company tax		9,251	6,527
428	582	Deferred tax	10	9,647	4,172
0	0	Prepayments		13,338	17,377
<b>428</b>	<b>46,035</b>	<b>Receivables</b>		<b>365,096</b>	<b>177,761</b>
<b>48,760</b>	<b>3,126</b>	<b>Cash at bank and in hand</b>		<b>153,483</b>	<b>248,990</b>
<b>49,188</b>	<b>49,161</b>	<b>Current assets</b>		<b>518,579</b>	<b>426,751</b>
<b>297,547</b>	<b>344,138</b>	<b>Assets</b>		<b>748,517</b>	<b>630,160</b>

## Balance Sheet December 31<sup>st</sup> 2016

### Shareholders Equity and Liabilities

Parent Company DKK 1,000			Consolidated DKK 1,000	
2015	2016	Note	2016	2015
		<b>EQUITY</b>		
744	744	Share capital	744	744
38,387	85,005	Reserve for net revaluation under the equity method	85,005	38,387
254,494	253,946	Retained earnings	253,946	254,494
		Capital and reserves attributable to owners of Milestone Group A/S	339,695	293,625
293,625	339,695	Non-controlling interests	0	0
-	-			
<b>293,625</b>	<b>339,695</b>	<b>Total equity</b>	<b>339,695</b>	<b>293,625</b>
0	0	Deferred tax	44,279	41,400
<b>0</b>	<b>0</b>	<b>Provisions</b>	<b>44,279</b>	<b>41,400</b>
0	0	Trade payables	11,409	10,105
3,650	4,116	Payables to group enterprises	-	-
0	0	Corporation tax	13,078	2,166
272	327	Other payables	129,178	115,531
0	0	Deferred income	210,878	167,333
<b>3,922</b>	<b>4,443</b>	<b>Short-term debt</b>	<b>364,543</b>	<b>295,135</b>
<b>3,922</b>	<b>4,443</b>	<b>Debt</b>	<b>364,543</b>	<b>295,135</b>
<b>297,547</b>	<b>344,138</b>	<b>Liabilities and equity</b>	<b>748,517</b>	<b>630,160</b>
		Mortgages, securities and contingent liabilities	11	
		Contingent asset	12	
		Contractual obligations	13	
		Related parties	14	
		Cash Flow Statement Notes	15	

## Statement of changes in equity

Attributable to owners of Milestone Group A/S					
	Notes	Share capital	Retained earnings	Reserve for net revaluation according to the equity method	Total
<b>Equity at January 1<sup>st</sup> 2015</b>		<b>744</b>	<b>242,025</b>	<b>0</b>	<b>242,769</b>
Exchange rate adjustment beginning of year			-1,243		-1,243
Exchange rate adjustment during year			-298		-298
Fair value adjustment of hedging instruments, end of year			-4,852		-4,852
Adjustment to deferred tax on hedging instruments, end of year			922		922
Purchase of minority interests			1,304		1,304
Other adjustments			-2,941		-2,941
Net income for the year			19,577	38,387	57,964
<b>Equity at 1 December 31<sup>st</sup> 2015</b>		<b>744</b>	<b>254,494</b>	<b>38,387</b>	<b>293,625</b>
Exchange rate adjustment beginning of year	6		317		317
Exchange rate adjustment during year	6		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			-5,269	46,618	41,349
<b>Equity at December 31<sup>st</sup> 2016</b>		<b>744</b>	<b>253,946</b>	<b>85,005</b>	<b>339,695</b>
		2016	2015	2014	2013
<b>Share capital DKK 1,000</b>		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 2016 treasury shares amounted to DKK 5 (2015: DKK 5).

In the financial year the Company have acquired treasury shares of a nominal amount of DKK 0 (2015: DKK 0).

# Cash Flow Statement

		Consolidated DKK 1,000	
	Note	2016	2015
Net income for the year		41,349	57,964
Adjustments	15	83,871	61,263
Change in working capital	15	-122,369	6,232
Cash flows from operating activities before paid financial items and tax		2,851	125,459
Financial income received		3,234	12,551
Financial expenses paid		-2,186	-1,699
Cash flows from operating activities before paid tax		3,899	136,311
Corporate tax paid		-1,507	-374
<b>Cash flows from operating activities</b>		<b>2,392</b>	<b>135,937</b>
Investment intangible fixed assets		-84,944	-77,782
Investment tangible fixed assets		-11,450	-11,276
Sale of property, plant and equipment		14	228
<b>Cash flows from investing activities</b>		<b>-96,380</b>	<b>-88,830</b>
Purchase of minority interests		0	-2,941
<b>Cash flows from financing activities</b>		<b>0</b>	<b>-2,941</b>
<b>Change in cash and cash equivalents</b>		<b>-93,988</b>	<b>44,166</b>
Cash and cash equivalents at January 1 <sup>st</sup>		248,990	211,405
Currency adjustments		-1,519	-6,580
<b>Cash and cash equivalents at December 31<sup>st</sup></b>		<b>153,483</b>	<b>248,990</b>
<i>Cash and cash equivalents are specified as follows:</i>			
<i>Current asset investments</i>			
Cash at bank and in hand		153,483	248,990
<b>Cash and cash equivalents at December 31<sup>st</sup></b>		<b>153,483</b>	<b>248,990</b>

# Notes to the Annual Report

Parent Company		Consolidated	
DKK 1,000		DKK 1,000	
2015	2016	2016	2015
<b>Note 1 Segment information</b>			
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.			
<b>Geographical segments</b>			
0	0	34,126	30,957
0	0	631,372	526,958
0	0	43,539	44,508
<b>0</b>	<b>0</b>	<b>709,037</b>	<b>602,423</b>
<b>Product segments</b>			
0	0	709,037	602,423
<b>0</b>	<b>0</b>	<b>709,037</b>	<b>602,423</b>
<b>Note 2 Fees to independent auditors</b>			
5	51	309	294
0	0	302	129
42	0	504	378
0	0	62	33
<b>47</b>	<b>51</b>	<b>1,177</b>	<b>834</b>
<b>Note 3 Staff expenses</b>			
167	190	366,156	306,251
0	0	16,045	12,400
0	0	29,264	24,691
0	0	27,752	25,825
0	0	-49,627	-49,752
<b>167</b>	<b>190</b>	<b>389,590</b>	<b>319,415</b>
<b>0</b>	<b>0</b>	<b>581</b>	<b>472</b>
		<b>Average number of employees</b>	

## Notes to the Annual Report

### Note 4 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> 2016	432,369	3,911	436,280	16,385
Additions for the year	47,925	16,041	63,966	20,978
Disposals for the year	0	0	0	0
Transferred to completed	3,698	-3,698	0	0
Cost at December 31 <sup>st</sup> 2016	483,992	16,254	500,246	37,363
Depreciation and Impairment at January 1 <sup>st</sup> 2016	-267,175	0	-267,175	-3,206
Depreciation for the year	-57,938	0	-57,938	-4,990
Depreciations on disposals for the year	0	0	0	0
Depreciation and Impairment at December 31 <sup>st</sup> 2016	-325,113	0	-325,113	-8,196
<b>Carrying amount at December 31<sup>st</sup> 2016</b>	<b>158,879</b>	<b>16,254</b>	<b>175,133</b>	<b>29,167</b>

### Note 5 Tangible fixed assets

Consolidated - DKK 1,000

	Other fixtures and fittings, tools and equipment
Cost at January 1 <sup>st</sup> 2016	33,026
Currency adjustments	293
Additions for the year	11,450
Disposals for the year	-1,414
Cost at December 31 <sup>st</sup> 2016	43,355
Depreciation and Impairment at January 1 <sup>st</sup> 2016	-16,168
Currency adjustments	-101
Depreciation for the year	-8,623
Depreciations on disposals for the year	1,180
Depreciation and Impairment at December 31 <sup>st</sup> 2016	-23,713
<b>Carrying amount at December 31<sup>st</sup> 2016</b>	<b>19,642</b>

# Notes to the Annual Report

## Note 6 Financial fixed assets

Parent Company - DKK 1,000

	Investments in subsidiaries
Cost at January 1 <sup>st</sup> 2016	209,972
Cost at December 31 <sup>st</sup> 2016	209,972
Revaluations at January 1 <sup>st</sup> 2016	38,387
Changes in equity	4,722
Profit for the year	41,896
Revaluations at December 31 <sup>st</sup> 2016	85,005
<b>Carrying amount at December 31<sup>st</sup> 2016</b>	<b>294,977</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	Oregon, 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



## Notes to the Annual Report

Parent Company DKK 1,000			Consolidated DKK 1,000	
2015	2016		2016	2015
<b>Note 7 Interest and other financial income</b>				
28	0	Interest from subsidiaries	0	0
0	0	Currency adjustments	2,245	12,370
0	0	Other financial interest and income	989	181
<b>28</b>	<b>0</b>		<b>3,234</b>	<b>12,551</b>
<b>Note 8 Interest and other financial expenses</b>				
0	-276	Interest from subsidiaries	0	0
-194	-182	Other financial interest and expenses	-2,186	-1,699
<b>-194</b>	<b>-458</b>		<b>-2,186</b>	<b>-1,699</b>
<b>Note 9 Tax</b>				
0	0	Current tax for the year	5,096	-4,452
0	0	Adjustment current tax prior years	-2,473	0
59	154	Change in deferred tax	-2,596	-13,580
0	0	Adjustment deferred tax prior years	10,174	0
<b>59</b>	<b>154</b>	<b>Total tax for the year</b>	<b>10,201</b>	<b>-18,032</b>
<b>Attributable to:</b>				
59	154	Tax on profit for the year	8,975	-17,110
0	0	Tax on changes in equity	1,226	-922
<b>59</b>	<b>154</b>	<b>Total tax for the year</b>	<b>10,201</b>	<b>-18,032</b>
<b>Note 10 Deferred Tax</b>				
0	0	Intangible Assets	43,207	40,546
0	0	Tangible Assets	-2,615	-813
0	0	Current Assets	1,072	1,666
0	0	Other obligations	-6,104	-3,023
-428	-582	Net Operating Loss	-928	-1,149
<b>-428</b>	<b>-582</b>	<b>Deferred tax</b>	<b>34,632</b>	<b>37,228</b>
<b>Change in deferred tax</b>				
88	154	Change in Profit and loss	2,596	-15,597
0	0	Change in Equity	-1,226	1,140
0	0	Change in prior years	-8,948	0
-29	0	Effect of change of local tax rates in P & L	0	1,095
0	0	Effect of change of local tax rates in Equity	0	-218
<b>59</b>	<b>154</b>	<b>Change in deferred tax</b>	<b>-7,578</b>	<b>-13,580</b>

# Notes to the Annual Report

## **Note 11 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 12 Contingent asset**

Milestone has been awarded a compensation in the Danish Arbitration Court. Milestone claimed a compensation from the former OEM-partner as part of the termination of the OEM-agreement in 2015. As Milestone and the former OEM-partner could not reach an agreement on the compensation, the matter was brought to the Arbitration Court for a ruling. The Arbitration Court ruled in Milestones favor in 2016. The former OEM-partner did not recognize the ruling of the Arbitration Court and Milestone Systems has therefore filed an enforcement claim in the US. The US Court is expected to rule on the matter in the first half of 2017.

## **Note 13 Contractual obligations**

*Consolidated*

The Group has entered into operating leases with an average annual lease payment of DKK 4,079,000. The value of the remaining period to maturity of these leases totals DKK 6,940,000.

The Group has entered into rental agreements with an annual total rent of DKK 15.792,000 in 2015. The total obligation amount is DKK 24,446,000 for the Group.

## **Note 14 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).

# Notes to Cash Flow Statement

## Note 15 Cash Flow Statement

	Consolidated DKK 1,000	
	2016	2015
<b>Cash flow statement - adjustments</b>		
Depreciation Intangible and tangible assets	71,565	57,062
Interest and other financial items	-1,048	-10,852
Corporate tax	8,975	17,110
Other	-1,193	2,795
Fair value of derivatives	5,572	-4,852
	<b>83,871</b>	<b>61,263</b>
<b>Cash flow statement - change in working capital</b>		
Change in receivables	-180,865	-59,032
Change in suppliers, provisions, etc	58,496	65,264
	<b>-122,369</b>	<b>6,232</b>

## Note 16 Proposed distribution of profit

Parent Company DKK 1,000			Consolidated DKK 1,000	
2015	2016		2016	2015
19,577	-5,269	Retained earnings	-5,269	19,577
38,387	46,618	Reserve for net revaluation under the equity method	46,618	38,387
<b>57,964</b>	<b>41,349</b>	<b>Proposed distribution of profit</b>	<b>41,349</b>	<b>57,964</b>