

MUSIC Tribe Brands DK A/S

Sindalsvej 34, 8240 Risskov
CVR no. 32 56 96 33

Annual report for 2017

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 28.06.18

Cheryl S. De Leon
Dirigent

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The company

MUSIC Tribe Brands DK A/S
Sindalsvej 34
8240 Risskov
Registered office: Risskov
CVR no.: 32 56 96 33
Financial year: 01.01 - 31.12

Executive Board

Cheryl Saldana-De Leon

Board Of Directors

Raul Guevara Gerodias
Cheryl Saldana-De Leon
Vanessa Cancio Raymundo

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Statement of the Board of Directors and Executive Board on the annual report

We have on this day presented the annual report for the financial year 01.01.17 - 31.12.17 for MUSIC Tribe Brands DK A/S.

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

In our opinion, the financial statements give a true and fair view of the the company's assets, liabilities and financial position as at 31.12.17 and of the results of the the company's activities for the financial year 01.01.17 - 31.12.17.

We believe that the management's review includes a fair review of the matters dealt with in the management's review.

The annual report is submitted for adoption by the general meeting.

Risskov, June 25, 2018

Executive Board

Cheryl Saldana-De Leon

Board Of Directors

Raul Guevara Gerodias
Chairman

Cheryl Saldana-De Leon

Vanessa Cancio Raymundo

To the Shareholder of MUSIC Tribe Brands DK A/S**Opinion**

We have audited the financial statements of MUSIC Tribe Brands DK A/S for the financial year 01.01.17 - 31.12.17, which comprise the income statement, balance sheet, statement of changes in equity and notes, inclusive of accounting policies. The financial statements are prepared in accordance with Danish Financial Statements Act

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31.12.17 and of the results of the company's operations for the financial year 01.01.17 - 31.12.17 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibility for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing 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 International Standards on Auditing 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

We communicate with those charged with governance regarding, among other matters, the

planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement regarding the 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, we conclude that management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Acts. We did not identify any material misstatement of management's review.

Aarhus, June 25, 2018

Beierholm

Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Helle Damsgaard Jensen
State Authorized Public Accountant
MNE-no. mne33690

FINANCIAL HIGHLIGHTS**Key figures**

Figures in DKK '000	2017	2016	01.07.14 31.12.15	2013/14	2012/13
<i>Profit/loss</i>					
Operating profit/loss	25,295	38,607	70,054	26,761	23,482
Index	108	164	298	114	100
Total net financials	1,647	625	-3,506	2,473	748
Index	220	84	-469	331	100
Profit/loss for the year	21,631	30,633	51,131	22,904	17,276
Index	125	177	296	133	100
<i>Balance</i>					
Total assets	247,631	237,545	193,776	180,177	150,508
Index	165	158	129	120	100
Investments in property, plant and equipment	17,050	4,707	4,849	848	387
Index	4,406	1,216	1,253	219	100
Equity	160,952	139,321	108,687	71,481	65,877
Index	244	211	165	109	100

Ratios

	2017	2016	01.07.14 31.12.15	2013/14	2012/13
<i>Profitability</i>					
Return on equity	14%	25%	57%	33%	27%
<i>Equity ratio</i>					
Equity interest	65%	59%	56%	40%	44%
<i>Others</i>					
Number of employees (average)	115	92	79	79	75

The financial year 2014/15 was extended to 18 months due to change of Balance Sheet date to 31 December. The reason was alignment of the Balance Sheet to the new Parent Company, MUSIC Group Limited.

Other years presented contain a 12 month's period.

Return on equity:	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$
Equity interest:	$\frac{\text{Equity, end of year} \times 100}{\text{Total assets}}$

The ratios have been computed in accordance with the recommendations of the Danish Society of Financial Analysts (Den Danske Finansanalytikerforening).

Primary activities

MUSIC Group Innovation DK A/S develops, produces and markets products worldwide for performing artists and for the professional audio market.

Development in activities and financial affairs

The income statement for the period 01.01.17 - 31.12.17 shows a profit/loss of DKK'000 21,631 against DKK'000 30,633 for the period 01.01.16 - 31.12.16. The balance sheet shows equity of DKK'000 160,952.

The management considers the net profit for the year to be satisfactory.

A change in the global sales strategy meant that the Company's total product range is sold and distributed through 2 distributors instead of the original 4 affiliated companies.

Outlook

The Company expects to be merged with Music Group Commercial A/S in 2018/2019. Earnings is expected to be at the same level next year.

Knowledge resources

The Company is intellectual capital intensive. Much competence and much knowledge of technologies and product development have been built up in the Company's development department. Most of the product development activities are carried out by the Company's own employees; thus, it is ensured that competences and knowledge are embedded in the Company.

Special risks*Currency risks*

The Company has considerable sales and purchase in USD and EUR, and the Company's income statement is thus affected by the exchange rate movements of these currencies against DKK.

Liquidity risks

The Company's necessary cash resources are ensured through the cooperation with The TC Group A/S's finance function.

Credit risks

The most material credit risk relates to the Company's trade receivables.

The Company performs individual customer credit ratings on a current basis. No individual customer constitutes a major part of the Company's total sales.

External environment

The Company's production and other activities are not assessed to have adverse environmental impact regards noise, smoke, discharge of waste products and massive use of energy.

On a current basis, the Company monitors that, current environmental regulations are met, including the conditions with sub-suppliers.

Research and development activities

The Company's total expense for research and development amount to DKK 49 million.

New products

The Company focuses on development of products for 'the performing artist' for use both at concerts and in the studio and for the professional audio market. During the financial year significant products have been released within both categories.

Investments

The most important investments made during the year are investments in development activities.

Subsequent events

No important events have occurred after the end of the financial year.

Income statement

Note	2017 DKK '000	2016 DKK '000
	31,191	52,781
	-11,319	-5,761
	5,423	-8,413
	-24	-1
	25,271	38,606
2 Financial income	4,569	1,009
3 Financial expenses	-2,922	-384
	26,918	39,231
	-5,287	-8,598
	21,631	30,633

4 Distribution of net profit

Balance sheet

ASSETS		31.12.17	31.12.16
Note		DKK '000	DKK '000
	Completed development projects	15,686	33,917
	Acquired rights	420	230
	Development projects in progress	42,566	29,861
5	Total intangible assets	58,672	64,008
	Plant and machinery	3,556	4,707
	Property, plant and equipment under construction	16,636	0
6	Total property, plant and equipment	20,192	4,707
	Total non-current assets	78,864	68,715
	Raw materials and consumables	1,534	1,763
	Work in progress	42	64
	Manufactured goods and goods for resale	4,160	48,979
	Total inventories	5,736	50,806
	Trade receivables	899	1,076
	Receivables from group enterprises	133,908	99,154
	Other receivables	12,614	373
7	Prepayments	185	196
	Total receivables	147,606	100,799
	Cash	15,425	17,225
	Total current assets	168,767	168,830
	Total assets	247,631	237,545

EQUITY AND LIABILITIES		31.12.17	31.12.16
Note		DKK '000	DKK '000
8	Share capital	500	500
	Reserve for development costs	45,437	25,530
	Retained earnings	115,015	113,291
	Total equity	160,952	139,321
9	Provisions for deferred tax	11,167	13,012
10	Other provisions	6,275	2,398
	Total provisions	17,442	15,410
	Trade payables	1,480	5,074
	Payables to group enterprises	51,363	59,977
	Income taxes	7,782	4,724
	Other payables	8,612	13,039
	Total short-term payables	69,237	82,814
	Total payables	69,237	82,814
	Total equity and liabilities	247,631	237,545
11	Contingent liabilities		
12	Charges and security		
13	Related parties		

Statement of changes in equity

Figures in DKK '000	Share capital	Reserve for development costs	Retained earnings
Statement of changes in equity for 01.01.16 - 31.12.16			
Balance pr. 01.01.16	500	0	108,188
Transfers to/from other reserves	0	25,530	-25,530
Net profit/loss for the year	0	0	30,633
Balance as at 31.12.16	500	25,530	113,291
Statement of changes in equity for 01.01.17 - 31.12.17			
Balance as at 01.01.17	500	25,530	113,291
Transfers to/from other reserves	0	19,907	-19,907
Net profit/loss for the year	0	0	21,631
Balance as at 31.12.17	500	45,437	115,015

	2017 DKK '000	2016 DKK '000
1. Employee aspects		
Wages and salaries	60,374	53,566
Pensions	4,511	-1,563
Other social security costs	260	189
Other staff costs	3,630	2,571
Total	68,775	54,763
Total staff costs comprise:		
Production costs	54,453	47,647
Distribution costs	6,703	-1,563
Administrative expenses	7,619	8,679
Total	68,775	54,763
Average number of employees during the year	115	92

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statement Act.

	2017 DKK '000	2016 DKK '000
2. Financial income		
Interest, group enterprises	600	328
Other interest income	83	5
Foreign exchange gains	3,886	676
Other financial income	3,969	681
Total	4,569	1,009

3. Financial expenses

Interest, group enterprises	473	25
Other interest expenses	89	48
Foreign exchange losses	2,360	311
Other financial expenses total	2,449	359
Total	2,922	384

4. Distribution of net profit

Retained earnings	21,631	30,633
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5. Intangible assets

Figures in DKK '000	Completed development projects	Acquired rights	Development projects in progress
Cost as at 01.01.17	238,941	1,354	29,865
Additions during the year	27,766	349	40,467
Disposals during the year	-17,634	0	-27,766
Cost as at 31.12.17	249,073	1,703	42,566
Amortisation and impairment losses as at 01.01.17	-205,028	-1,124	0
Amortisation during the year	-38,677	-159	0
Reversal of amortisation of and impairment losses on disposed assets	10,318	0	0
Amortisation and impairment losses as at 31.12.17	-233,387	-1,283	0
Carrying amount as at 31.12.17	15,686	420	42,566

Development projects relate to the development of products within the Company's core business. The projects are progressing according to plan through the use of the resources allocated by Management to the development. The products are expected to be sold in the present market to the Company's existing customers.

6. Property, plant and equipment

Figures in DKK '000	Plant and machinery	Property, plant and equipment under construction
Cost as at 01.01.17	8,059	0
Additions during the year	414	16,636
Disposals during the year	-65	0
Cost as at 31.12.17	8,408	16,636
Depreciation and impairment losses as at 01.01.17	-3,352	0
Depreciation during the year	-1,541	0
Reversal of depreciation of and impairment losses on disposed assets	41	0
Depreciation and impairment losses as at 31.12.17	-4,852	0
Carrying amount as at 31.12.17	3,556	16,636

31.12.17	31.12.16
DKK '000	DKK '000

7. Prepayments

Other prepayments	185	196
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8. Share capital

The share capital consists of:

	Shares	Nominal value, DKK'000
Share capital	500	1

9. Deferred tax

Deferred tax as at 01.01.17	13,012	9,147
Deferred tax recognised in the income statement	-1,845	3,865
Deferred tax as at 31.12.17	11,167	13,012

10. Other provisions

Figures in DKK '000	Warranty commitments
Provisions as at 01.01.17	6,275
Provisions as at 31.12.17	6,275

Other provisions are expected to be distributed as follows:

The Company provides warranties on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions of DKK'000 6,275 (2016: DKK'000 2,398) have been recognised for expected warranty claims.

11. Contingent liabilities*Lease commitments*

The company has concluded lease agreements with terms to maturity of 24 months and average lease payments of DKK 8k, a total of DKK 196k.

Other contingent liabilities

The company is taxed jointly with the other Danish companies in the group and has joint, several and unlimited liability for income taxes and any obligations to withhold tax at source on interest, royalties and dividends for the jointly taxed companies. The total tax liability for the jointly taxed companies at the balance sheet date has not yet been determined. For further information, please see the financial statements of the management company .

12. Charges and security

The enterprise has provided a company charge of DKK 7,000k as security for debt to credit institutions and of DKK 100,000k as a security for the Group's debt to credit institutions. As at 31.12.17, the company charge comprises the following assets with the following carrying amounts:

- Other plant, fixtures and fittings, tools and equipment, DKK 3,556k
- Inventories, DKK 5,737k
- Trade receivables, DKK 899k
- Other receivables, DKK 54k

13. Related parties

Transaction	Relation	2017 DKK'000
Sales of goods and services	TC Group	134,906
Sales of goods and services	Music Group	57,779
Purchase of goods and services	TC Group	7,530
Purchase of goods and services	Music Group	131,346
Interest income on receivables	TC Group	600
Interest expenses	TC Group	473
		31.12.17
Balances		DKK'000
Receivables from group enterprises		133,908
Payables to group enterprises		-51,363

Receivables from group companies recognised under current assets and short-term payables to group enterprises consist of balances which are settled on an ongoing basis and in accordance with the company's standard terms of agreement and payment. No write-downs have been made on the receivables.

The interest rate on loans between related parties was 4% during the year while loans totalling kDKK 25,899 to a company in Bermuda did not carry any interests.

14. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for medium-sized enterprises in reporting class C.

The accounting policies have been applied consistently with previous years.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation, impairment losses and write-downs, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

CURRENCY

The annual report is presented in Danish kroner (DKK).

On initial recognition, transactions denominated in foreign currencies are translated using the exchange rates applicable at the transaction date. Exchange rate differences between the exchange rate applicable at the transaction date and the exchange rate at the date of payment are recognised in the income statement as a financial item. Receivables, payables and other monetary items denominated in foreign currencies are translated using the exchange rates applicable at the balance sheet date. The difference between the exchange rate applicable at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest annual report is recognised under financial income or expenses in the income statement. Fixed assets, inventories and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

14. Accounting policies - continued -**LEASES**

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

INCOME STATEMENT**Gross profit**

Gross profit comprises revenue and production costs.

Revenue

Income from the sale of goods is recognised in the income statement if delivery has taken place and the risk has passed to the buyer before the end of the financial year and where the selling price can be determined reliably and is expected to be paid. Revenue is measured at fair value and is determined exclusive of VAT and other taxes collected on behalf of third parties and less discounts.

Production costs

Costs incurred, directly or indirectly, to generate the revenue for the year, including raw materials and consumables, wages and salaries and lease of and depreciation, amortisation and impairment losses on the fixed assets used in the production process, are recognised under production costs.

Distribution costs

Costs for the distribution of goods sold during the year and sales campaigns etc., including wages and salaries for sales staff, advertising and exhibition costs etc. and lease of and depreciation, amortisation and impairment losses on the fixed assets used in the distribution and sales activity, are recognised under distribution costs.

14. Accounting policies - continued -**Administrative expenses**

Expenses incurred during the year for management and administration, including wages and salaries for administrative staff and management as well as office premise expenses, office expenses, bad debts etc. and lease of and depreciation, amortisation and impairment losses on the fixed assets used for administration, are recognised under administrative expenses.

Other operating income**Depreciation, amortisation and impairment losses**

The depreciation and amortisation of intangible assets and property, plant and equipment aim at systematic depreciation and amortisation over the expected useful lives of the assets. Assets are depreciated and amortised according to the straight-line method based on the following expected useful lives and residual values:

	Useful lives, years	Residual value, per cent
Completed development projects	3-8	0
Acquired rights	3	0
Plant and machinery	3-5	0

The basis of depreciation and amortisation is the cost of the asset less the expected residual value at the end of the useful life. Moreover, the basis of depreciation and amortisation is reduced by any impairment losses. The useful life and residual value are determined when the asset is ready for use and reassessed annually.

Intangible assets and property, plant and equipment are impaired in accordance with the accounting policies referred to in the 'Impairment losses on fixed assets' section.

Other operating expenses

Other operating expenses comprise costs of a secondary nature in relation to the enterprise's activities, including costs relating to rental activities and losses on the sale of intangible assets and property, plant and equipment.

Other net financials

Interest income and interest expenses, foreign exchange gains and losses on transactions

14. Accounting policies - continued -

denominated in foreign currencies etc. are recognised in other net financials.

Tax on profit/loss for the year

The current and deferred tax for the year is recognised in the income statement as tax on the profit/loss for the year with the portion attributable to the profit/loss for the year, and directly in equity with the portion attributable to amounts recognised directly in equity.

The company is jointly taxed with Danish consolidated enterprises.

In connection with the settlement of joint taxation contributions, the current Danish income tax is allocated between the jointly taxed enterprises in proportion to their taxable incomes. This means that enterprises with a tax loss receive joint taxation contributions from enterprises which have been able to use this loss to reduce their own taxable profit.

BALANCE SHEET**Intangible assets***Completed development projects and development projects in progress*

Development projects are recognised in the balance sheet where the project aims at developing a specific product or a specific process, intended to be produced or used, respectively, by the company in its production process. On initial recognition, development projects are measured at cost. Cost comprises the purchase price plus expenses resulting directly from the purchase, including wages and salaries directly attributable to the development projects until the asset is ready for use. Interest on loans arranged to finance development projects in the development period is not included in the cost. Other development projects and development costs are recognised in the income statement in the year in which they are incurred.

Development projects in progress are transferred to completed development projects when the asset is ready for use.

Development projects are subsequently measured in the balance sheet at cost less accumulated amortisation and impairment losses.

Completed development projects are amortised using the straight-line method based on useful lives, which are stated in the 'Depreciation, amortisation and impairment losses' section.

14. Accounting policies - continued -*Acquired rights*

Acquired rights are measured in the balance sheet at cost less accumulated amortisation and impairment losses.

Acquired rights are amortised using the straight-line method based on useful lives, which are stated in the 'Depreciation, amortisation and impairment losses' section.

Gains and losses on the disposal of intangible assets

Gains and losses on the disposal of intangible assets are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal.

Property, plant and equipment

Property, plant and equipment comprise plant and machinery.

Property, plant and equipment are measured in the balance sheet at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and expenses resulting directly from the purchase until the asset is ready for use. Interest on loans arranged to finance production is not included in the cost.

Property, plant and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation, amortisation and impairment losses' section.

Property, plant and equipment under construction

Property, plant and equipment under construction are measured at cost. Costs incurred on property, plant and equipment under construction are transferred to the relevant asset category when the asset is ready for use.

Gains and losses on the disposal of property, plant and equipment

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price, if any, less selling costs and the carrying amount at the date of disposal less any costs of disposal.

Impairment losses on fixed assets

The carrying amount of fixed assets which are not measured at fair value is assessed

14. Accounting policies - continued -

annually for indications of impairment over and above what is reflected in depreciation and amortisation.

If the company's realised return on an asset or a group of assets is lower than expected, this is considered an indication of impairment.

If there are indications of impairment, an impairment test is conducted of individual assets or groups of assets.

The assets or groups of assets are impaired to the lower of recoverable amount and carrying amount.

The higher of net selling price and value in use is used as the recoverable amount. The value in use is determined as the present value of expected net cash flows from the use of the asset or group of assets as well as expected net cash flows from the sale of the asset or group of assets after the expiry of their useful lives.

Impairment losses are reversed when the reasons for the impairment no longer exist.

Inventories

Inventories are measured at cost calculated according to the FIFO principle. Inventories are written down to the lower of cost and net realisable value.

The cost of raw materials and consumables as well as goods for resale is determined as purchase prices plus expenses resulting directly from the purchase.

The cost of manufactured finished goods and work in progress is determined as the value of direct material and labour costs. Interest on loans arranged to finance production is not included in the cost.

The net realisable value of inventories is determined as the selling price less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and the expected development in the selling price.

Receivables

Receivables are measured at amortised cost, which usually corresponds to the nominal value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each

14. Accounting policies - continued -

receivable if there is no objective evidence of individual impairment of a receivable.

Prepayments

Prepayments recognised under assets comprise costs incurred in respect of subsequent financial years.

Cash

Cash includes deposits in bank accounts as well as operating cash.

Equity

An amount equivalent to internally generated development costs in the balance sheet is recognised in equity under reserve for development costs. The reserve is measured less deferred tax and reduced by amortisation and impairment losses on the asset. If impairment losses on development costs are subsequently reversed, the reserve will be restored with a corresponding amount. The reserve is dissolved when the development costs are no longer associated with the operations of the enterprise, and the remaining amount will be transferred to retained earnings. In accordance with act no. 738 amending the Danish Financial Statements Act of 1 June 2015, development costs will initially be recognised in the reserve, with initial recognition in the balance sheet from 1 January 2016.

Provisions

Other provisions comprise expected expenses incidental to warranty commitments, restructuring etc. and are recognised when the company has a legal or constructive obligation at the balance sheet date and it is probable that such obligation will draw on the financial resources of the the company. Provisions are measured at net realisable value or fair value if the provision is expected to be settled over the longer term.

Warranty commitments comprise the obligation to repair defective work within the warranty period of 1-5 years. Warranty commitments are measured at net realisable value and recognised based on previous years' experience with warranty work.

Current and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the basis of the taxable income for the year, adjusted for tax paid on account.

14. Accounting policies - continued -

Joint taxation contributions payable and receivable are recognised as income tax under receivables or payables in the balance sheet.

Deferred tax liabilities and tax assets are recognised on the basis of all temporary differences between the carrying amounts and tax bases of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is non-amortisable for tax purposes and other items where temporary differences, except for acquisitions, have arisen at the date of acquisition without affecting the net profit or loss for the year or the taxable income. In cases where the tax value can be determined according to different taxation rules, deferred tax is measured on the basis of management's intended use of the asset or settlement of the liability.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates which, according to the legislation in force at the balance sheet date, will be applicable when the deferred tax is expected to crystallise as current tax.

Payables

Short-term payables are measured at amortised cost, normally corresponding to the nominal value of such payables.

CASH FLOW STATEMENT

Referring to section 86(4) of the Danish Financial Statements Act a cash flow statement has not been prepared as the enterprise is included in the consolidated cash flow statement.