BEIERHOLM
VI SKABER BALANCE

MUSIC Tribe Brands DK A/S

Sindalsvej 34, 8240 Risskov

CVR no. 32 56 96 33

Annual report for 2018

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 09.07.19

Martin Hjort
Dirigent

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Company information etc.

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 01.01.18 - 31.12.18 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 31.12.18 and of the results of the the company's activities for the financial year 01.01.18 - 31.12.18.

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, May 6, 2019

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 01.01.18 - 31.12.18, 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 31.12.18 and of the results of the company's operations for the financial year 01.01.18 - 31.12.18 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, May 6, 2019

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	2018	2017	2016	01.07.14 31.12.15	2013/14
Profit/loss					
Operating profit/loss	41,957	25,295	38,607	70,054	26,761
Index	157	95	144	262	100
Total net financials	-3,565	1,647	625	-3,506	2,473
Index	-144	67	25	-142	100
Profit/loss for the year	30,030	21,631	30,633	51,131	22,904
Index	131	94	134	223	100
Balance					
Total assets	376,987	247,631	237,545	193,776	180,177
Index	209	137	132	108	100
Investments in property, plant and equipment	37,344	17,050	4,707	4,849	848
Index	4,404	2,011	555	572	100
Equity	190,982	160,952	139,321	108,687	71,481
Index	267	225	195	152	100

Ratios

	2018	2017	2016	01.07.14 31.12.15	2013/14
Profitability					
Return on equity	17%	14%	25%	57%	33%
Equity ratio					
Equity interest	51%	65%	59%	56%	40%
Others					
Number of employees (average)	88	115	92	79	79

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: $\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$

Equity interest: $\frac{\text{Equity, end of year x 100}}{\text{Total assets}}$

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 01.01.18 - 31.12.18 shows a profit/loss of DKK'000 30,030 against DKK'000 21,631 for the period 01.01.17 - 31.12.17. The balance sheet shows equity of DKK'000 190,982.

The Company's total product range is sold through selected distributors.

The profit for the year is considered satisfactory.

Outlook

The Company expects to be merged with Music Group Commercial A/S in 2019/2020. 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.

The Company´s total expense for research and development amount to DKK 31.9 million.

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.

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

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.

Special risks

MUSIC Tribe Brands DK A/S sells and distributes, as mentioned above, through selected distributors. The Company's income thus depends on the continued positive development in the international sales and distribution activities.

Credit risks

The Company has no significant credit risk.

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 31.9 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		2018 DKK '000	2017 DKK '000
	Gross profit	**58,535**	**31,191**
	Distribution costs	-6,183	-11,319
	Administrative expenses	-10,395	5,423
	Other operating expenses	7	-24
	Profit/loss before net financials	**41,964**	**25,271**
2	Financial income	701	4,569
3	Financial expenses	-4,266	-2,922
	Profit/loss before tax	**38,399**	**26,918**
	Tax on profit or loss for the year	-8,369	-5,287
	Profit/loss for the year	**30,030**	**21,631**

4 Distribution of net profit

Balance sheet

ASSETS

Note		31.12.18 DKK '000	31.12.17 DKK '000
	Completed development projects	16,358	15,687
	Acquired rights	238	420
	Development projects in progress	44,734	42,566
5	**Total intangible assets**	**61,330**	**58,673**
	Plant and machinery	2,096	3,556
	Property, plant and equipment under construction	53,912	16,636
6	**Total property, plant and equipment**	**56,008**	**20,192**
	Total non-current assets	**117,338**	**78,865**
	Raw materials and consumables	242	1,534
	Work in progress	17	42
	Manufactured goods and goods for resale	63	4,160
	Total inventories	**322**	**5,736**
	Trade receivables	1,076	899
	Receivables from group enterprises	134,253	133,908
	Other receivables	2,069	12,614
7	Prepayments	289	185
	Total receivables	**137,687**	**147,606**
	Cash	**121,640**	**15,425**
	Total current assets	**259,649**	**168,767**
	Total assets	**376,987**	**247,632**

Balance sheet

EQUITY AND LIABILITIES

Note		31.12.18 DKK '000	31.12.17 DKK '000
8	Share capital	500	500
	Reserve for development costs	47,652	45,437
	Retained earnings	142,830	115,015
	Total equity	**190,982**	**160,952**
9	Provisions for deferred tax	11,830	11,167
10	Other provisions	5,868	6,275
	Total provisions	**17,698**	**17,442**
	Trade payables	9,348	1,481
	Payables to group enterprises	133,065	51,363
	Income taxes	15,488	7,782
	Other payables	10,406	8,612
	Total short-term payables	**168,307**	**69,238**
	Total payables	**168,307**	**69,238**
	Total equity and liabilities	**376,987**	**247,632**

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 01.01.18 - 31.12.18			
Balance as at 01.01.18	500	45,437	115,015
Transfers to/from other reserves	0	2,215	-2,215
Net profit/loss for the year	0	0	30,030
Balance as at 31.12.18	500	47,652	142,830

	2018 DKK '000	2017 DKK '000
1. Employee aspects		
Wages and salaries	42,994	60,374
Pensions	3,560	4,511
Other social security costs	245	260
Other staff costs	2,167	3,630
Total	48,966	68,775
Total staff costs comprise:		
Production costs	35,020	54,453
Distribution costs	4,141	6,703
Administrative expenses	9,805	7,619
Total	48,966	68,775
Average number of employees during the year	88	115

	2018 DKK '000	2017 DKK '000

2. Financial income

	2018 DKK '000	2017 DKK '000
Interest, group enterprises	355	600
Other interest income	346	83
Foreign exchange gains	0	3,886
Other financial income	346	3,969
Total	701	4,569

3. Financial expenses

	2018 DKK '000	2017 DKK '000
Interest, group enterprises	0	473
Other interest expenses	86	89
Foreign exchange losses	4,180	2,360
Other financial expenses total	4,266	2,449
Total	4,266	2,922

4. Distribution of net profit

	2018 DKK '000	2017 DKK '000
Retained earnings	30,030	21,631

5. Intangible assets

Figures in DKK '000	Completed development projects	Acquired rights	Development projects in progress
Cost as at 01.01.18	249,074	1,703	42,566
Additions during the year	23,263	0	25,431
Disposals during the year	-2,169	0	-23,263
Cost as at 31.12.18	270,168	1,703	44,734
Amortisation and impairment losses as at 01.01.18	-233,387	-1,283	0
Foreign currency translation adjustment of foreign enterprises	2,531	0	0
Amortisation during the year	-22,954	-182	0
Amortisation and impairment losses as at 31.12.18	-253,810	-1,465	0
Carrying amount as at 31.12.18	16,358	238	44,734

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 01.01.18	8,408	16,636
Additions during the year	67	37,276
Disposals during the year	-69	0
Cost as at 31.12.18	8,406	53,912
Depreciation and impairment losses as at 01.01.18	-4,851	0
Depreciation during the year	-1,522	0
Reversal of depreciation of and impairment losses on disposed assets	63	0
Depreciation and impairment losses as at 31.12.18	-6,310	0
Carrying amount as at 31.12.18	2,096	53,912

	31.12.18 DKK '000	31.12.17 DKK '000
7. Prepayments		
Other prepayments	289	185

8. Share capital

The share capital consists of:

	Shares	Nominal value, DKK'000
Share capital	500	1

	31.12.18 DKK '000	31.12.17 DKK '000

9. Deferred tax

	31.12.18 DKK '000	31.12.17 DKK '000
Additions relating to mergers and acquisition of enterprises as at 01.01.18	11,166	13,012
Deferred tax recognised in the income statement	664	-1,845
Additions relating to mergers and acquisition of enterprises as at 31.12.18	11,830	11,167

10. Other provisions

Figures in DKK '000	Warranty commitments
Provisions as at 01.01.18	6,275
Applied during the year	-407
Provisions as at 31.12.18	5,868

	31.12.18 DKK '000	31.12.17 DKK '000
Other provisions are expected to be distributed as follows:		
Current liabilities	5,868	6,275

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 5,868 (2017: DKK'000 6,275) have been recognised for expected warranty claims.

11. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of 16 months and average lease payments of DKK 8k, a total of DKK 128k.

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 THE TC Group A/S.

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 31.12.18, the company charge comprises the following assets with the following carrying amounts:

- Other plant, fixtures and fittings, tools and equipment, DKK 2,096k
- Inventories, DKK 321k
- Trade receivables, DKK 1,076k
- Other receivables, DKK 506k

13. Related parties

Controlling influence:	Basis of influence
THE TC Group A/S	Controlling shareholder
MUSIC Group Limited, Bermuda	Controlling shareholder of The TC Group A/S
DTOS Trustees, Ltd., Mauritius	Controlling shareholder of MUSIC Group Limited

Transaction	Relation	2018 DKK'000
Sales of goods and services	TC Group	2,319
Sales of goods and services	Music Group	117,528
Purchase of goods and services	TC Group	16,630
Interest income on receivables	TC Group	355

Balances	31.12.18 DKK'000
Receivables from group enterprises	134,253
Payables to group enterprises	-133,065

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 payables to the parent The TC Group A/S totalling kDKK 128,190 was 4% during the year while other loans and recievables did not carry any interests.

The company is included in the consolidated financial statements of the parent THE TC Group A/S.

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

Aquired 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.