

FALCON.IO.

Annual Report 2016/17.



Falcon.io ApS: Central Business Registration: No. 33 36 22 26
H.C. Andersen Blvd. 27 - 1553 Copenhagen V - Denmark

The Annual General Meeting adopted the annual report on 02.07.2017

Ulrik Bo Larsen, Chairman of the General Meeting

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Entity details

Entity

Falcon.io ApS

H.C. Andersen Blvd. 27

1553 CopenhagenV, Denmark

Central Business Registration No: 33362226

Registered in: Copenhagen

Financial year: 01.02.2016 - 31.01.2017

Board of Directors

Thomas Weilby Knudsen, Chairman

Roeland de Hoop

Andy Hanwei Chen

David Carratt

Ulrik Bo Larsen

Christoph Wedegärtner

Executive Board

Ulrik Bo Larsen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab, Member of Deloitte Touche Tohmatsu Limited

Weidekampsgade 6

Postboks 1600

0900 Copenhagen, Denmark

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of Falcon.io ApS for the financial year 01.02.2016 - 31.01.2017.

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

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.01.2017 and of the results of its operations and cash flows for the financial year 01.02.2016 - 31.01.2017.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Copenhagen, 02.07.2017

Executive Board

Ulrik Bo Larsen

Board of Directors

Thomas Weilby Knudsen
Chairman

Roeland de Hoop

Andy Hanwei Chen

David Carratt

Ulrik Bo Larsen

Christoph Wedegärtner

Independent auditor's report

To the shareholders of Falcon.io ApS

Opinion

We have audited the consolidated financial statements and the parent financial statements of Falcon.io ApS for the financial year 01.02.2016 - 31.01.2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent, and the consolidated cash flow statement. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.01.2017, and of the results of their operations and the consolidated cash flows for the financial year 01.02.2016 - 31.01.2017 in accordance with the Danish Financial Statements Act.

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 consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of 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 responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent 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 consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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

Independent auditor's report

reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent 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 Entity'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 consolidated financial statements and the parent 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 Entity'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 consolidated financial statements and the parent 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent 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.

Independent auditor's report

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Copenhagen, 02.07.2017

**Deloitte Statsautoriseret
Revisionspartnerselskab**

Member of Deloitte Touche Tohmatsu Limited
Central Business Registration No: 33963556

Jacob Simonsen
State Authorised Public Accountant

Stinus Tschentscher Andersen
State Authorised Public Accountant

Management commentary

	2016/17 EUR'000	2015/16 EUR'000
Financial highlights		
Key figures		
Revenue	11.897	7.805
Gross profit/loss	9.259	5.717
Operating profit/loss	(10.940)	(12.087)
Net financials	(681)	(656)
Profit/loss for the year	(10.881)	(11.955)
Total assets	9.546	11.310
Investments in property, plant and equipment	38	294
Equity	(3.446)	5.477
Cash flows from (used in) operating activities	(10.567)	(12.590)
Cash flows from (used in) investing activities	(38)	(816)
Cash flows from (used in) financing activities	5.524	18.693
Working capital changes	998	195

Ratios

Gross margin (%)	77,8	73,2
Net margin (%)	(91,5)	(153,2)
Return on equity (%)	(1.071,5)	(218,3)
Equity ratio (%)	(36,1)	48,4

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Ratios
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing.
Net margin (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's operating profitability.
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

Falcon.io offers an integrated SaaS platform for social media listening, engaging, publishing and managing customer data. Falcon.io enables its clients to explore the full potential of digital marketing by managing multiple customer touch-points from one platform.

The Company currently has in excess of 800 clients throughout the world and employs approximately 175 people in its four offices in Copenhagen, New York, Berlin and Budapest

Development in activities and finances

While the Company posted a net loss for FY 2016/2017 of EUR 10.881k, the Company grew its revenues by 52% while total operating expenses increased by only 15%. During FY 2017/2018, the Company expects to significantly decrease its net loss as technological economies of scale allow the growth of revenues to further outpace the growth in expenses. The Company anticipates only a modest increase in its employee headcount from 31 January 2017 through FY 2017/2018, thus keeping its largest expense line relatively unchanged.

As of 31 January 2017 the Annual Recurring Revenue (ARR) of the Company's customer base was equal to EUR 15.333k and the Company expects its ARR to grow to over EUR 21.000k during FY 2017/2018.

As of 31 January 2017 the balance sheet of the Company shows equity of EUR (3.446k) and cash of EUR 1.995k. During the first half of FY 2017/2018, the Company completed an equity financing round which augmented its cash position by EUR 5.363k and anticipates closing an additional EUR 3.000k debt facility during the second half of FY 2017/2018. The Company anticipates the proceeds of the completed equity financing and contemplated debt financing to fund the Company through cash-flow positivity which is forecasted to occur during the first half of FY 2018/2019.

Outlook

In FY 2017/2018 and beyond, it is expected that the total addressable market for the Company's services will continue to be positive and increase in key markets and segments. For example, the Company has seen its business in the United States increase by over 90% during FY 2016/2017 and expects strong growth for FY 2017/2018 as well.

Particular risks

Technology Related Risks

As the Company provides its services within a SaaS-based platform, several risks must be mitigated including platform security, platform availability, data protection and privacy concerns, amongst others. The Company realizes the importance of mitigating these risks and does so through a combination of a) utilizing the hosting infrastructure of Amazon Web Services, Inc. b) implementing strict physical, logical and data access controls, c) publishing and adhering to our company privacy policy and d) preparing to comply with the EU's General Data Protection Regulation (GDPR) which introduces new obligations for companies processing the personal data of EU citizens.

Currency Risks

Due to sales activity in foreign markets, cash flow and equity are influenced by changes in exchange rates for a number of currencies. While the Company does not hedge its exchange rate risk, management has deemed the risk to be immaterial to its financial statements.

Management commentary

Events after the balance sheet date

During the first half of FY 2017/18, the Company completed an equity financing round which augmented its cash position by EUR 5.363k.

No other events have occurred after the balance sheet date to this date which would influence the evaluation of the annual report.

Consolidated income statement for 2016/17

	<u>Notes</u>	<u>2016/17 EUR'000</u>	<u>2015/16 EUR'000</u>
Revenue		11.897	7.805
Production costs		<u>(2.638)</u>	<u>(2.088)</u>
Gross profit/loss		9.259	5.717
Research and development costs		(5.000)	(4.048)
Distribution costs		(9.269)	(8.342)
Administrative costs		<u>(5.930)</u>	<u>(5.414)</u>
Operating profit/loss		(10.940)	(12.087)
Other financial income		0	54
Other financial expenses	2	<u>(681)</u>	<u>(710)</u>
Profit/loss before tax		(11.621)	(12.743)
Tax on profit/loss for the year		<u>740</u>	<u>788</u>
Profit/loss for the year	3	<u>(10.881)</u>	<u>(11.955)</u>

Consolidated balance sheet at 31.01.2017

	<u>Notes</u>	<u>2016/17 EUR'000</u>	<u>2015/16 EUR'000</u>
Acquired rights		76	84
Intangible assets	4	76	84
Other fixtures and fittings, tools and equipment		42	59
Leasehold improvements		176	207
Property, plant and equipment	5	218	266
Deposits		426	433
Fixed asset investments	6	426	433
Fixed assets		720	783
Trade receivables		2.732	2.281
Other receivables		1.627	131
Income tax receivable		2.067	1.323
Prepayments		405	272
Receivables		6.831	4.007
Cash		1.995	6.520
Current assets		8.826	10.527
Assets		9.546	11.310

Consolidated balance sheet at 31.01.2017

	<u>Notes</u>	<u>2016/17 EUR'000</u>	<u>2015/16 EUR'000</u>
Contributed capital		29	28
Retained earnings		(3.475)	5.449
Equity		(3.446)	5.477
Debt to other credit institutions		2.153	0
Non-current liabilities other than provisions		2.153	0
Bank loans		556	0
Payables to other credit institutions		1.749	0
Trade payables		685	213
Other payables		2.056	2.094
Deferred income		5.793	3.526
Current liabilities other than provisions		10.839	5.833
Liabilities other than provisions		12.992	5.833
Equity and liabilities		9.546	11.310
Subsidiaries	8		

Consolidated statement of changes in equity for 2016/17

	Contributed capital EUR'000	Retained earnings EUR'000	Total EUR'000
Equity beginning of year	28	5.449	5.477
Increase of capital	1	1.999	2.000
Exchange rate adjustments	0	(42)	(42)
Profit/loss for the year	0	(10.881)	(10.881)
Equity end of year	29	(3.475)	(3.446)

Consolidated cash flow statement for 2016/17

	<u>Notes</u>	<u>2016/17 EUR'000</u>	<u>2015/16 EUR'000</u>
Operating profit/loss		(10.940)	(12.087)
Amortisation, depreciation and impairment losses		99	34
Working capital changes	7	996	195
Cash flow from ordinary operating activities		(9.845)	(11.858)
Financial income paid		(524)	(710)
Other cash flows from operating activities		(198)	(22)
Cash flows from operating activities		(10.567)	(12.590)
Acquisition etc of intangible assets		0	(103)
Acquisition etc of property, plant and equipment		(38)	(294)
Acquisition of fixed asset investments		0	(384)
Acquisition of enterprises		0	(35)
Cash flows from investing activities		(38)	(816)
Cash increase of capital		2.000	18.966
Cash decrease of capital		0	(250)
Venture debt		3.524	(23)
Cash flows from financing activities		5.524	18.693
Increase/decrease in cash and cash equivalents		(5.081)	5.287
Cash and cash equivalents beginning of year		6.520	1.133
Cash and cash equivalents end of year		1.439	6.420
Cash and cash equivalents at year-end are composed of:			
Cash		1.995	6.520
Short-term debt to banks		(556)	0
Cash and cash equivalents end of year		1.439	6.520

Notes to consolidated financial statements

	2016/17	2015/16
1. Staff costs		
Average number of employees	191	198
	2016/17 EUR'000	2015/16 EUR'000
2. Other financial expenses		
Interest expenses	524	710
Exchange rate adjustments	157	0
	681	710
	2016/17 EUR'000	2015/16 EUR'000
3. Proposed distribution of profit/loss		
Retained earnings	(10.881)	(11.955)
	(10.881)	(11.955)
		Acquired rights EUR'000
4. Intangible assets		
Cost beginning of year		88
Cost end of year		88
Amortisation and impairment losses beginning of year		(5)
Exchange rate adjustments		1
Amortisation for the year		(8)
Amortisation and impairment losses end of year		(12)
Carrying amount end of year		76

Notes to consolidated financial statements

	Other fixtures and fittings, tools and equipment EUR'000	Leasehold improve- ments EUR'000
5. Property, plant and equipment		
Cost beginning of year	68	230
Exchange rate adjustments	3	1
Additions	1	37
Cost end of year	72	268
Depreciation and impairment losses beginning of the year	(8)	(23)
Depreciation for the year	(22)	(69)
Depreciation and impairment losses end of the year	(30)	(92)
Carrying amount end of year	42	176
		Deposits EUR'000
6. Fixed asset investments		
Cost beginning of year		434
Exchange rate adjustments		(8)
Cost end of year		426
Carrying amount end of year		426
	2016/17 EUR'000	2015/16 EUR'000
7. Change in working capital		
Increase/decrease in receivables	(2.083)	(1.692)
Increase/decrease in trade payables etc	814	750
Other changes	2.265	1.137
	996	195

	Registered in	Corpo- rate form	Equity inte- rest %	Equity EUR'000	Profit/loss EUR'000
8. Subsidiaries					
Falcon.io Inc	New York, USA	Inc	100,0	(67)	(123)
Falcon.io GmbH	Berling, Germany	GmbH	100,0	16	14
Falcon.io Kft	Budapest, Hungary	Kft	100,0	(33)	20

Parent income statement for 2016/17

	<u>Notes</u>	<u>2016/17 EUR'000</u>	<u>2015/16 EUR'000</u>
Revenue		10.044	7.681
Production costs		<u>(2.321)</u>	<u>(1.927)</u>
Gross profit/loss		7.723	5.754
Research and development costs		(4.595)	(3.999)
Distribution costs		(6.295)	(6.751)
Administrative costs		<u>(7.681)</u>	<u>(7.148)</u>
Operating profit/loss		(10.848)	(12.144)
Other financial income		0	51
Other financial expenses	2	<u>(685)</u>	<u>(676)</u>
Profit/loss before tax		(11.533)	(12.769)
Tax on profit/loss for the year		<u>740</u>	<u>789</u>
Profit/loss for the year	3	<u>(10.793)</u>	<u>(11.980)</u>

Parent balance sheet at 31.01.2017

	<u>Notes</u>	<u>2016/17 EUR'000</u>	<u>2015/16 EUR'000</u>
Acquired rights		76	84
Intangible assets	4	76	84
Other fixtures and fittings, tools and equipment		37	56
Leasehold improvements		176	208
Property, plant and equipment	5	213	264
Investments in group enterprises		35	35
Deposits		384	384
Fixed asset investments	6	419	419
Fixed assets		708	767
Trade receivables		2.188	1.952
Other receivables		1.596	218
Income tax receivable		2.067	1.323
Prepayments	7	339	93
Receivables		6.190	3.586
Cash		1.846	6.520
Current assets		8.036	10.106
Assets		8.744	10.873

Parent balance sheet at 31.01.2017

	Notes	2016/17 EUR'000	2015/16 EUR'000
Contributed capital	8	29	28
Retained earnings		(3.392)	5.429
Equity		(3.363)	5.457
Other provisions	9	0	18
Provisions		0	18
Debt to other credit institutions		2.153	0
Non-current liabilities other than provisions		2.153	0
Bank loans		556	103
Payables to other credit institutions		1.749	0
Trade payables		639	170
Payables to group enterprises		574	164
Other payables		1.747	1.846
Deferred income	10	4.689	3.115
Current liabilities other than provisions		9.954	5.398
Liabilities other than provisions		12.107	5.398
Equity and liabilities		8.744	10.873
Unrecognised rental and lease commitments	11		

Parent statement of changes in equity for 2016/17

	Contributed capital EUR'000	Retained earnings EUR'000	Total EUR'000
Equity beginning of year	28	5.429	5.457
Increase of capital	1	1.999	2.000
Exchange rate adjustments	0	(27)	(27)
Profit/loss for the year	0	(10.793)	(10.793)
Equity end of year	29	(3.392)	(3.363)

Notes to parent financial statements

	2016/17	2015/16
1. Staff costs		
Average number of employees	171	182
	2016/17 EUR'000	2015/16 EUR'000
2. Other financial expenses		
Interest expenses	524	707
Exchange rate adjustments	161	(31)
	685	676
	2016/17 EUR'000	2015/16 EUR'000
3. Proposed distribution of profit/loss		
Retained earnings	(10.793)	(11.980)
	(10.793)	(11.980)
		Acquired rights EUR'000
4. Intangible assets		
Cost beginning of year		88
Cost end of year		88
Amortisation and impairment losses beginning of year		(4)
Amortisation for the year		(8)
Amortisation and impairment losses end of year		(12)
Carrying amount end of year		76

Notes to parent financial statements

	Other fixtures and fittings, tools and equipment EUR'000	Leasehold improve- ments EUR'000
5. Property, plant and equipment		
Cost beginning of year	63	231
Additions	1	37
Cost end of year	64	268
Depreciation and impairment losses beginning of the year	(7)	(23)
Depreciation for the year	(20)	(69)
Depreciation and impairment losses end of the year	(27)	(92)
Carrying amount end of year	37	176

	Investments in group enterprises EUR'000	Deposits EUR'000
6. Fixed asset investments		
Cost beginning of year	35	384
Cost end of year	35	384
Carrying amount end of year	35	384

7. Prepayments

Prepayments comprise prepaid cost.

	Number	Par value EUR'000	Nominal value EUR'000
8. Contributed capital			
Ordinary shares	7.864.500	7,56	11
Seed shares	1.709.900	7,56	2
Series A shares	4.484.000	7,56	6
Series B shares	7.323.696	7,56	10
	21.382.096		29

The Board of Directors has been authorised to issue warrants with the right to subscribe for up to nominally DKK 10,900 (EUR 1,461) Ordinary shares. In 2013 the Board of Directors has been authorised until August 2018 to issue additional warrants with the right to subscribe for up to nominally DKK 4,100 (EUR 549.6542) Ordinary shares.

Notes to parent financial statements

9. Other provisions

Other provisions comprise estimated cost for the future.

10. Deferred income

Deferred income is comprised of received income for recognition in subsequent financial years.

	2016/17 EUR'000	2015/16 EUR'000
11. Unrecognised rental and lease commitments		
Hereof liabilities under rental or lease agreements until maturity in total	2.102	2.617

Unrecognised rental and lease commitments relates to rent on leased premises which can be vacated at the earliest in March 2021.

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C.

The accounting policies applied for these financial statements are consistent with those applied last year.

Recognition and measurement

Assets are recognised on the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised on the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements

The consolidated financial statements are comprised of parent and the group enterprises (subsidiaries) that are controlled by the parent. Control is achieved by the parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment

Accounting policies

date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses.

Income statement

Revenue

Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Production costs

Production costs are comprised of cost of sales for the financial year. This cost includes ordinary write-down of inventories and other costs incurred to earn revenue for the financial year such as wages and salaries.

Research and development costs

Research and development costs include research costs and costs of development projects not qualifying for recognition in the balance sheet.

Distribution costs

Distribution costs are comprised of costs incurred for sale and distribution of the Entity's products, such as wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc.

Administrative costs

Administrative expenses are comprised of costs incurred for the Entity's administrative functions, such as wages and salaries for administrative staff and Management, stationery and office supplies, amortisation and depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Income from investments in group enterprises

Income from investments in group enterprises is comprised of dividends received from the individual group enterprises in the financial year.

Other financial income from group enterprises

Other financial income from group enterprises is comprised of interest income on receivables from group enterprises.

Other financial income

Other financial income is comprised of dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, payables and transactions in foreign currencies and amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Financial expenses from group enterprises

Financial expenses from group enterprises are comprised of interest expenses from payables to group enterprises.

Accounting policies

Other financial expenses

Other financial expenses are comprises of interest expenses, including interest expenses on payables to group enterprises, payables and transactions in foreign currencies and amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Intellectual property rights etc

Intellectual property rights are comprises of acquired intellectual property rights.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, but over no more than 20 years.

Intellectual property rights are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost is comprises of the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	5 years

For leasehold improvements and assets subject to finance leases, the depreciation period cannot exceed the contract period.

Estimated useful lives and residual values are reassessed annually.

Items of property plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are measured at cost and are written down to the lower of recoverable amount and carrying amount.

Accounting policies

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Income tax payable or receivable

Current tax payable or receivable is recognised on the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Prepayments

Prepayments are comprises of cost incurred relating to subsequent financial years. Prepayments are measured at cost.

Cash

Cash is comprises of cash in hand and bank deposits.

Operating leases

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

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Deferred income

Deferred income is comprises of income received for recognition in subsequent financial years. Deferred income is measured at cost.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, installments on interest-bearing debt, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk less short-term bank loans.