BEIERHOLM
VI SKABER BALANCE

Novalume A/S

Lykkegårdsvej 9, 4000 Roskilde
CVR no. 38 26 24 59

Annual report
for the financial year 16.12.16 - 31.12.17

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 26.02.18

Christian Monrad Overgaard
Dirigent

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Company information etc.

The company

Novalume A/S
Lykkegårdsvej 9
4000 Roskilde
Tel.: 26 32 64 15
Registered office: Roskilde
CVR no.: 38 26 24 59
Founded: 16. december 2016
Financial year: 16.12 - 31.12

Executive Board

Jakob Meiland Hansen

Board Of Directors

Christian Monrad Overgaard (chairman)
Per Asmund Christensen
Jakob Meiland Hansen

Auditors

Beierholm
Statsautoriseret Revisionspartnerselskab

Subsidiaries

Novalume Chile SpA, Chile
Novalume Colombia ,S.A.S, Colombia

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 16.12.16 - 31.12.17 for Novalume 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 16.12.16 - 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.

Roskilde, February 15, 2018

Executive Board

Jakob Meiland Hansen

Board Of Directors

Christian Monrad Overgaard Chairman	Per Asmund Christensen	Jakob Meiland Hansen

To the Shareholder of Novalume A/S

Opinion

We have audited the financial statements of Novalume A/S for the financial year 16.12.16 - 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 16.12.16 - 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.

Soeborg, Copenhagen, February 15, 2018

Beierholm
Statsautoriseret Revisionspartnerselskab
CVR no. 32 89 54 68

Philip Heick-Poulsen
State Authorized Public Accountant
MNE-no. mne34280

Lasse Rosenborg Petersen
State Authorized Public Accountant
MNE-no. mne42896

Primary activities

Novalume A/S develops, sells and finances "green" LED lighting and wireless smart city solutions for the professional market and public sector globally. The company headquarter is situated in Roskilde, Denmark, close to Copenhagen.

Development in activities and financial affairs

The income statement for the period 16.12.16 - 31.12.17 shows a profit of 14,3 mio DKK. The balance sheet shows equity of 15.4 mio DKK.

During the first accounting year, significant efforts went into establishing a strong organization with the financial, commercial and technological competencies needed to deliver reliable LED projects and smart city solutions globally. The company has also built close business relations with banks for project financing.

Novalume light management system, Lumintell LMS, has been further developed, including a new user interface, and now controls more than 50,000 LED streetlight luminaires around the world.

Novalume is a member of United Nations Global Compact and working according to Novalume Code of Conduct for Suppliers and Partners.

Subsidiaries were established in Santiago (Chile) in April, and in Bogota (Colombia) in November 2017.

Novalume has grown from no employees to 24 permanent staff or full-time consultants by end of 2017.

As for financial results, the gross contribution was 23,3 mio DKK from entering into a number of new profitable public lighting contracts and from extraordinary income related to acquisition of assets and foreign companies. In turn, these activities required extraordinary high costs for lawyers and other professional consultants.

The result after tax totals 14,3 mio DKK and is considered satisfactory by the management.

Outlook

The global market for LED lighting for infrastructure projects and smart city solutions is foreseen to see solid growth in the coming years. Novalume expects an increase in turnover based on the platform created during 2017, notably in Europe and Latin America markets.

Subsequent events

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

Income statement

Note		16.12.16 31.12.17 DKK
	Gross profit	**23,280,960**
2	Staff costs	-4,865,003
	Profit before depreciation and amortisation	**18,415,957**
	Depreciation and amortisation	-332,865
	Profit before net financials	**18,083,092**
3	Income from equity investments in group enterprises	1,248,059
4	Financial income	642,858
5	Financial expenses	-2,025,508
	Profit/loss before tax	**17,948,501**
6	Tax on profit for the year	-3,680,865
	Profit for the year	**14,267,636**

Proposed appropriation account

Reserve for net revaluation according to the equity method	1,248,059
Retained earnings	13,019,577
Total	**14,267,636**

Balance sheet

ASSETS

Note		31.12.17 DKK
	Completed development projects	555,951
	Acquired rights	95,696
	Development projects in progress	1,387,573
7	**Total intangible assets**	**2,039,220**
	Leasehold improvements	31,125
	Other fixtures and fittings, tools and equipment	330,370
	Total property, plant and equipment	**361,495**
8	Equity investments in group enterprises	1,537,604
	Deposits	200,000
	Total investments	**1,737,604**
	Total non-current assets	**4,138,319**
	Manufactured goods and goods for resale	7,245,864
	Prepayments for goods	729,101
	Total inventories	**7,974,965**
	Trade receivables	11,167
	Receivables from group enterprises	24,232,901
	Other receivables	9,306,915
	Prepayments	240,577
9	**Total receivables**	**33,791,560**
	Cash	**3,380,737**
	Total current assets	**45,147,262**
	Total assets	**49,285,581**

Balance sheet

EQUITY AND LIABILITIES

Note		31.12.17 DKK
	Share capital	1,000,000
	Reserve for net revaluation according to the equity method	1,383,910
	Reserve for development costs	1,959,220
	Retained earnings	11,060,357
	Total equity	**15,403,487**
	Provisions for deferred tax	2,530,481
	Total provisions	**2,530,481**
10	Payables to other credit institutions	11,879,744
10	Lease commitments	66,012
10	Payables to group enterprises	4,620,000
10	Other payables	6,380,000
	Total long-term payables	**22,945,756**
10	Short-term portion of long-term payables	4,350,000
	Payables to other credit institutions	117
	Trade payables	857,667
	Payables to group enterprises	447,883
	Payables to associates	118,406
	Income taxes	1,150,384
	Other payables	1,481,400
	Total short-term payables	**8,405,857**
	Total payables	**31,351,613**
	Total equity and liabilities	**49,285,581**

11 Contingent liabilities
12 Charges and security
13 Related parties

Statement of changes in equity

Figures in DKK	Share capital	Reserve for net revaluation according to the equity method	Reserve for development costs	Retained earnings	Total equity
Statement of changes in equity for 16.12.16 - 31.12.17					
Foreign currency translation	0	135,851	0	0	135,851
Capital contributed on establishment	1,000,000	0	0	0	1,000,000
Other changes in equity	0	0	1,959,220	-1,959,220	0
Net profit for the year	0	1,248,059	0	13,019,577	14,267,636
Balance as at 31.12.17	1,000,000	1,383,910	1,959,220	11,060,357	15,403,487

The company does not hold treasury shares.

Notes

1. Special items

Special items are income and expenses that are special due to their size and nature. The following special items were recorded in the financial year:

		16.12.16 31.12.17 DKK
Negative goodwill	Other operating income	18,103,727

Negative goodwill related to acquisition of assets and foreign companies.

	16.12.16 31.12.17 DKK
2. Staff costs	
Wages and salaries	4,514,054
Pensions	203,526
Other social security costs	27,644
Other staff costs	119,779
Total	4,865,003
Average number of employees during the year	8

3. Income from equity investments in group enterprises

Income from equity investments in group enterprises	1,248,059
Total	1,248,059

Notes

	16.12.16 31.12.17 DKK

4. Financial income

Interest, group enterprises	257,448
Other interest income	28
Foreign currency translation adjustments	222,413
Other financial income	162,969
Total	642,858

5. Financial expenses

Interest, group enterprises	581,666
Other interest expenses	98,249
Foreign currency translation adjustments	1,022,001
Other financial expenses	323,592
Total	2,025,508

6. Tax on profit for the year

Current tax for the year	1,150,384
Adjustment of deferred tax for the year	2,530,481
Total	3,680,865

7. Intangible assets

Figures in DKK	Completed development projects	Acquired rights	Development projects in progress
Additions during the year	743,500	119,620	1,387,573
Cost as at 31.12.17	743,500	119,620	1,387,573
Amortisation during the year	-187,549	-23,924	0
Amortisation and impairment losses as at 31.12.17	-187,549	-23,924	0
Carrying amount as at 31.12.17	555,951	95,696	1,387,573

Activated development projects relate to the development of three new (LMS) Light Management Systems for Lumintell. Development projects are budgeted and approved quarterly. Development projects are prioritized whether the project will add value to the customer. The projects are on schedule. The activated projects are finalized in 2017 with market introduction during 2018.

8. Equity investments in group enterprises

Figures in DKK	Equity investments in group enterprises
Cost as at 16.12.16	0
Additions during the year	35,288
Cost as at 31.12.17	35,288
Net profit/loss from equity investments	1,504,424
Revaluations as at 31.12.17	1,504,424
Net profit/loss from equity investments	-120,514
Negative equity value impaired in receivables	118,406
Depreciation and impairment losses as at 31.12.17	-2,108
Carrying amount as at 31.12.17	1,537,604
Goodwill on initial recognition of equity investments measured at equity value	0

	31.12.17 DKK

9. Receivables

Receivables which fall due for payment more than 1 year after the end of the financial year	19,780,847

10. Longterm payables

Figures in DKK	Repayment first year	Outstanding debt after 5 years	Total payables at 31.12.17
Payables to other credit institutions	4,350,000	0	16,229,744
Lease commitments	0	0	66,012
Payables to group enterprises	0	0	4,620,000
Other payables	0	0	6,380,000
Total	4,350,000	0	27,295,756

11. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of 18 months and average lease payments of DKK 78k, a total of DKK 1.404k.

12. Charges and security

As security for debt to credit institutions of DKK 12,150k, a company charge of DKK 5,000k has been provided comprising other plant, fixtures and fittings, tools and equipment, inventories as well as trade receivables.

As security for debt to credit institutions of DKK 4,080k, a company charge of DKK 2,000k has been provided comprising intellectual property rights, other plant, fixtures and fittings, tools and equipment, inventories as well as trade receivables.

13. Related parties

The company is included in the consolidated financial statements of the parent M/S2 HOLDING ApS, København.

14. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act (*Årsregnskabsloven*) for enterprises in reporting class B with application of provisions for a higher reporting class.

No comparative figures have been provided as this is the company's first financial year.

In accordance with section 110 of the Danish Financial Statements Act, the company has not prepared consolidated financial statements.

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.

BUSINESS COMBINATIONS

Newly acquired or newly founded enterprises are recognised as from the date of acquisition and the date of foundation, respectively. The date of acquisition is the date at which control of the enterprise is obtained. Divested or discontinued enterprises are recognised until the date of divestment or discontinuation. The date of discontinuation is the date at which control of the enterprise passes to a third party.

Newly acquired enterprises are recognised in accordance with the acquisition method, according to which the identifiable assets and liabilities of the newly acquired enterprises are measured at fair value at the date of acquisition.

The cost of the equity investments in the acquired enterprises is offset against the

14. Accounting policies - continued -

proportionate share of the fair value of the subsidiaries' net assets at the date of the establishment of the group relationship.

The goodwill (positive difference) determined at the date of acquisition is recognised under intangible assets to the extent that an existing enterprise (activity) is acquired. Where the acquisition is effected by the acquisition of equity investments in another enterprise, goodwill is recognised under equity investments in subsidiaries in the balance sheet. Goodwill is amortised using the straight-line method based on an individual assessment of the useful life of the asset. The useful life of goodwill has been determined at years in consideration of the expected future net earnings of the enterprise to which goodwill relates. For negative goodwill (negative difference), a reassessment is made of the fair values determined for the net assets acquired and the purchase price of the enterprise. Negative goodwill that is attributable to contingent liabilities at the date of acquisition is recognised under deferred income in the balance sheet to the extent that an existing enterprise (activity) is acquired. Where the acquisition is effected by the acquisition of equity investments in another enterprise, negative goodwill is recognised under equity investments in subsidiaries in the balance sheet and is reduced as these liabilities are realised. Any remaining negative difference (negative goodwill) is recognised as income in other operating income in the income statement at the date of acquisition. Goodwill and negative goodwill from acquired enterprises is adjusted until the end of the year after the year in which the acquisition took place.

Gains or losses on the divestment of subsidiaries are determined as the difference between the divestment consideration and the carrying amount of net assets at the time of sale, including non-amortised goodwill, as well as the expected costs of divestment or discontinuation.

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 -

On recognition of foreign subsidiaries which are independent entities, the income statements are translated at the exchange rates applicable at the transaction date or approximate average exchange rates. The balance sheet items are translated using the exchange rates applicable at the balance sheet date. Foreign currency translation adjustments arising from the translation of equity at the beginning of the year using the exchange rates applicable at the balance sheet date and from the translation of income statements from average exchange rates to the exchange rates applicable at the balance sheet date are recognised directly in equity.

Translation adjustments of intercompany balances with independent foreign subsidiaries, measured using the equity method and where the balance is considered to be part of the overall investment, are recognised directly in equity. On the divestment of foreign entities, accumulated exchange differences are recognised in the income statement.

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, other operating income and cost of sales and other external expenses.

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.

Income from the delivery of services is recognised as delivery takes place, which means that revenue corresponds to the selling price of the work performed for the year stated on the basis of the stage of completion at the balance sheet date (percentage of completion method).

Other operating income

14. Accounting policies - continued -

Other operating income comprises income of a secondary nature in relation to the enterprise's activities, including rental income, negative goodwill and gains on the sale of intangible assets and property, plant and equipment.

Cost of sales

Cost of sales comprises cost of sales for the year measured at cost plus any changes in inventories, including write-downs to the extent that these do not exceed normal write-downs.

Other external expenses

Other external expenses comprise costs relating to distribution, sales and advertising and administration, premises and bad debts to the extent that these do not exceed normal write-downs.

Staff costs

Staff costs comprise wages and salaries as well as other staff-related costs.

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	5	0
Acquired rights	5	0
Leasehold improvements	3	0
Other plant, fixtures and fittings, tools and equipment	3	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.

14. Accounting policies - continued -

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.

Income from equity investments in group entreprises

For equity investments in subsidiaries, measured using the equity method, the share of the enterprises' profit or loss is recognised in the income statement after elimination of unrealised intercompany profits and losses and less any goodwill amortisation and impairment losses.

Income from equity investments in subsidiaries also comprises gains and losses on the sale of equity investments.

14. Accounting policies - continued -

Other net financials

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

14. Accounting policies - continued -

section.

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 leasehold improvements as well as other fixtures and fittings, tools and equipment.

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.

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.

Equity investments in group entreprises

Equity investments in subsidiaries are recognised and measured according to the equity method, meaning that these equity investments are measured at the proportionate share of the enterprises' equity value, determined according to the accounting policies of the parent, adjusted for the remaining value of positive or negative goodwill and gains and losses on

14. Accounting policies - continued -

transactions with the enterprises in question.

Accounting policies for the acquisition of new enterprises are stated in the 'Business combinations' section.

Impairment losses on fixed assets

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

14. Accounting policies - continued -

value, less write-downs for bad debts.

Write-downs for bad debts are determined based on an individual assessment of each receivable if there is no objective evidence of individual impairment of a receivable.

Deposits recognised under assets comprise deposits paid to the lessor under leases entered into by the company.

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

The net revaluation of equity investments in subsidiaries is recognised in the net revaluation reserve in equity according to the equity method to the extent that the carrying amount exceeds the cost.
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.

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.

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

14. Accounting policies - continued -

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

Long-term payables are measured at cost at the time of contracting such liabilities (raising of the loan). The payables are subsequently measured at amortised cost where capital losses and loan expenses are recognised in the income statement as a financial expense over the term of the payable on the basis of the calculated effective interest rate in force at the time of contracting the liability.

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