

Novalume A/S

Kay Fiskers Plads 9, 7., 2300 København S
CVR no. 38 26 24 59

Annual report for 2019

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 04.08.20

Jakob Meiland Hansen
Dirigent

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The company

Novalume A/S
Kay Fiskers Plads 9, 7.
2300 København S
Tel.: 26 32 64 15
Registered office: København
CVR no.: 38 26 24 59
Financial year: 01.01 - 31.12

Executive Board

Jakob Meiland Hansen

Board of Directors

Christian Monrad Overgaard
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 01.01.19 - 31.12.19 for Novalume A/S.

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

In our opinion, the financial statements give a true and fair view of the the company's assets, liabilities and financial position as at 31.12.19 and of the results of the the company's activities for the financial year 01.01.19 - 31.12.19.

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.

Copenhagen, August 4, 2020

Executive Board

Jakob Meiland Hansen

Board Of Directors

Christian Monrad Overgaard Per Asmund Christensen
Chairman

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 01.01.19 - 31.12.19, which comprise the income statement, balance sheet, statement of changes in equity and notes to the financial statements, including a summary of significant accounting policies. The financial statements are prepared in accordance with Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the financial statements give a true and fair view of the company's assets, liabilities and financial position at 31.12.19 and of the results of the company's operations for the financial year 01.01.19 - 31.12.19 in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

Basis for conclusion

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.

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.

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.

Soeborg, Copenhagen, August 4, 2020

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" and wireless smart city solutions for the professional market and the public sector. The company headquarter is situated in Copenhagen Ørestad, Denmark.

Novalume A/S has sales subsidiaries in Santiago (Chile) and in Bogota (Colombia).

Development in activities and financial affairs

The income statement for the period 01.01.19 - 31.12.19 shows a profit/loss of DKK -6,869,440 against DKK 4,267,072 for the period 01.01.18 - 31.12.18. The balance sheet shows equity of DKK 12,340,731.

2019 was a year of transition for Novalume. Novalume went from selling and financing streetlight projects with LED luminaires and lightning management systems (LMS) to focus on light management systems. This was a result of an internal analysis of Novalume's competitive strengths. Throughout 2019, Novalume spend significant resources to develop and launch a strongly upgraded version of our LMS (Lumintell) with improved deployment and maintenance functionalities. The upgraded Lumintell system was launched in late 2019 and has been marketed at international trade fairs, via trade delegations, geographical co-operations, demo-installations, as well as by various other branding initiatives. The market launch has generated strong interest from potential customers in several countries.

As a natural consequence, 2019 sales were lower than in previous years and a financial loss was incurred, which is however not satisfying when seen in isolation.

Novalume is a member of United Nations Global Compact and submitted the second Communication of Progress (COP) report during the year. This includes specific reporting along four sections: Human rights, Labor, Environment, and Anti-corruption.

Outlook

In 2020 the company expects to deliver a negative net result, due to the delay that covid-19 has imposed on marketing the updated Lumintell in particular.

Subsequent events

The company's operations have been negatively affected by the spread of coronavirus (COVID-19) in March and April 2020, as many of its customers have fully or partly shut down operations. It remains uncertain how the current outbreak of corona-virus will affect revenue in 2020, as the company's products are sold in several countries and through several different sales channels. The management expects that the situation will normalise later this year and that the company's capital resources are sufficient. Novalume is via its Chilean

subsidiary in dialogue with a larger customer in Chile regarding overdue payments under the contract.

Income statement

Note	2019 DKK	2018 DKK
Gross profit	6,200,604	16,584,430
1 Staff costs	-5,683,332	-7,262,518
Profit before depreciation, amortisation, write-downs and impairment losses	517,272	9,321,912
Depreciation, amortisation and impairments losses of intangible assets and property, plant and equipment	-759,148	-408,254
Other operating expenses	0	-944,680
Profit/loss before net financials	-241,876	7,968,978
2 Income from equity investments in group enterprises	-8,100,333	-4,335,497
3 Financial income	7,666,687	8,792,684
4 Financial expenses	-7,255,428	-5,726,946
Profit/loss before tax	-7,930,950	6,699,219
5 Tax on profit or loss for the year	1,061,510	-2,432,147
Profit/loss for the year	-6,869,440	4,267,072
Proposed appropriation account		
Reserve for net revaluation according to the equity method	0	-759,388
Retained earnings	-6,869,440	5,026,460
Total	-6,869,440	4,267,072

ASSETS		31.12.19	31.12.18
		DKK	DKK
Note			
	Completed development projects	4,459,013	1,785,931
	Acquired rights	47,848	71,772
	Development projects in progress	3,834,957	4,244,139
6	Total intangible assets	8,341,818	6,101,842
	Leasehold improvements	91,906	98,251
	Other fixtures and fittings, tools and equipment	49,867	167,786
	Total property, plant and equipment	141,773	266,037
	Deposits	403,650	240,000
	Total investments	403,650	240,000
	Total non-current assets	8,887,241	6,607,879
	Manufactured goods and goods for resale	1,212,420	3,671,943
	Total inventories	1,212,420	3,671,943
	Trade receivables	6,279,484	8,141,024
	Receivables from group enterprises	50,847,259	48,682,026
	Income tax receivable	1,105,517	0
	Other receivables	3,185,459	6,127,841
	Prepayments	62,480	113,692
8	Total receivables	61,480,199	63,064,583
	Cash	744,452	1,628,422
	Total current assets	63,437,071	68,364,948
	Total assets	72,324,312	74,972,827

EQUITY AND LIABILITIES		31.12.19	31.12.18
		DKK	DKK
Note			
	Share capital	1,000,000	1,000,000
	Reserve for development costs	6,469,296	4,703,455
	Retained earnings	4,871,435	13,342,582
	Total equity	12,340,731	19,046,037
	Provisions for deferred tax	2,311,171	2,267,164
	Total provisions	2,311,171	2,267,164
9	Payables to other credit institutions	22,874,553	24,248,538
9	Lease commitments	0	33,462
9	Payables to group enterprises	13,948,887	4,620,000
9	Other payables	5,891,783	6,380,000
	Total long-term payables	42,715,223	35,282,000
9	Short-term part of long-term payables	10,265,925	11,680,729
	Payables to other credit institutions	1,979,329	319,448
	Trade payables	425,142	1,197,634
	Payables to group enterprises	1,784,154	600,000
	Income taxes	0	2,695,464
	Other payables	502,637	1,884,351
	Total short-term payables	14,957,187	18,377,626
	Total payables	57,672,410	53,659,626
	Total equity and liabilities	72,324,312	74,972,827
10	Contingent liabilities		
11	Charges and security		
12	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 01.01.18 - 31.12.18					
Balance as at 01.01.18	1,000,000	1,383,910	1,959,220	11,060,357	15,403,487
Foreign currency translation adjustment of foreign enterprises	0	-624,522	0	0	-624,522
Other changes in equity	0	0	4,070,850	-4,070,850	0
Tax on changes in equity	0	0	-1,326,615	1,326,615	0
Net profit/loss for the year	0	-759,388	0	5,026,460	4,267,072
Balance as at 31.12.18	1,000,000	0	4,703,455	13,342,582	19,046,037
Statement of changes in equity for 01.01.19 - 31.12.19					
Balance as at 01.01.19	1,000,000	0	4,703,455	13,342,582	19,046,037
Foreign currency translation adjustment of foreign enterprises	0	0	0	164,134	164,134
Other changes in equity	0	0	2,263,899	-2,263,899	0
Tax on changes in equity	0	0	-498,058	498,058	0
Net profit/loss for the year	0	0	0	-6,869,440	-6,869,440
Balance as at 31.12.19	1,000,000	0	6,469,296	4,871,435	12,340,731

	2019 DKK	2018 DKK
1. Staff costs		
Wages and salaries	5,071,707	6,400,624
Pensions	511,847	601,517
Other social security costs	26,129	35,406
Other staff costs	73,649	224,971
Total	5,683,332	7,262,518
Average number of employees during the year	8	10

2. Income from equity investments in group enterprises

Share of profit or loss of group enterprises	-8,100,333	-4,335,497
Total	-8,100,333	-4,335,497

3. Financial income

Interest, group enterprises	2,036,187	1,266,016
Other interest income	166,479	225,835
Foreign currency translation adjustments	4,837,149	6,727,901
Other financial income	626,872	572,932
Total	7,666,687	8,792,684

	2019	2018
	DKK	DKK

4. Financial expenses

Interest, group enterprises	1,184,154	600,000
Other interest expenses	1,287,958	643,772
Foreign currency translation adjustments	3,969,537	3,477,818
Other financial expenses	813,779	1,005,356
Total	7,255,428	5,726,946

5. Tax on profit for the year

Current tax for the year	-1,105,517	2,695,464
Adjustment of deferred tax for the year	44,007	-263,317
Total	-1,061,510	2,432,147

6. Intangible assets

Figures in DKK	Completed development projects	Acquired rights	Development projects in progress
Cost as at 01.01.19	2,210,251	119,620	4,244,139
Additions during the year	1,009,603	0	1,941,222
Transfers during the year to/from other items	2,350,404	0	-2,350,404
Cost as at 31.12.19	5,570,258	119,620	3,834,957
Amortisation and impairment losses as at 01.01.19	-424,320	-47,848	0
Amortisation during the year	-686,925	-23,924	0
Amortisation and impairment losses as at 31.12.19	-1,111,245	-71,772	0
Carrying amount as at 31.12.19	4,459,013	47,848	3,834,957

Activated development projects relate to the development of three new (LMS) Light Management Systems for Lumintell. Development projects are budgeted and approved quarterly.

7. Equity investments in group enterprises

Figures in DKK	Equity invest- ments in group enterprises
Cost as at 01.01.19	167,348
Cost as at 31.12.19	167,348
Revaluations as at 01.01.19	-3,576,109
Foreign currency translation adjustment of foreign enterprises	164,133
Net profit/loss from equity investments	-8,100,332
Revaluations as at 31.12.19	-11,512,308
Negative equity value impaired in receivables	11,344,960
Depreciation and impairment losses as at 31.12.19	11,344,960
Carrying amount as at 31.12.19	0
	Ownership interest
Name and Registered office:	
Group enterprises:	
Novalume Chile SpA, Chile	80%
Novalume Colombia ,S.A.S, Colombia	100%

8. Receivables

Receivables which fall due for payment more than 1 year after the end of the financial year	50,677,208	41,978,004
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9. Longterm payables

Figures in DKK	Repayment first year	Outstanding debt after 5 years	Total payables at 31.12.19
Payables to other credit institutions	10,265,925	0	33,140,478
Lease commitments	0	0	0
Payables to group enterprises	0	0	13,948,887
Other payables	0	0	5,891,783
Total	10,265,925	0	52,981,148

Payables to other credit institutions of DKK 33,1m comprise of i) DKK 20.6m of non-recourse debt, where the debt towards the company's bank is guaranteed by the Danish Export Credit Agency (EKF) and ii) DKK 12.5m of temporary construction loans to which Novalume is liable, and where EKF indemnifies the company's bank for any losses in case Novalume cannot.

10. Contingent liabilities

Lease commitments

The company has concluded lease agreements with terms to maturity of 1 -47 months and a total of DKK 2.960k.

11. Charges and security

As security for debt to credit institutions of DKK 36.558k, 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 36.558k, 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.

12. Related parties

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

13. 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.

The accounting policies have been applied consistently with previous years.

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.

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.

13. 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).

13. Accounting policies - continued -**Other operating income**

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

13. Accounting policies - continued -

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.

Income from equity investments in group enterprises

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.

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

13. Accounting policies - continued -

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.

Acquired rights

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

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

Gains and losses on the disposal of intangible assets

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

13. Accounting policies - continued -**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 enterprises

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 transactions with the enterprises in question.

Equity investments in subsidiaries with a negative carrying amount are measured at DKK 0. Receivables that are considered part of the combined investment in the enterprises in question are impaired by any remaining negative equity value. Other receivables from such enterprises are impaired to the extent that such receivables are considered uncollectible. Provisions to cover the remaining negative equity value are recognised only to the extent that the company has a legal or constructive obligation to cover the liabilities of the enterprise in question.

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. Gains and losses are recognised in the income statement under income from equity investments.

13. Accounting policies - continued -**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 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.

13. Accounting policies - continued -

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.

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

13. Accounting policies - continued -

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.