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# ***Arcus Holding A/S***

Banemarksvej 50, DK-2605 Brøndby

## **Annual Report for 1 January - 31 December 2018**

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CVR No 38 33 03 65

The Annual Report was  
presented and adopted at  
the Annual General  
Meeting of the Company on  
24/4 2019

Anne Krebs  
Chairman of the General  
Meeting



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# Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Arcus Holding A/S for the financial year 1 January - 31 December 2018.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 31 December 2018 of the Company and the Group and of the results of the Company and Group operations for 2018.

We recommend that the Annual Report be adopted at the Annual General Meeting.

København, 14 March 2019

## Executive Board

Peter Andreas Pettersson

## Board of Directors

Lars Thinggaard  
Chairman

Masanori Yamada

Shuichi Shionoya

David John Bateson

Lars Larsen

Darren Andrew Rayner

# Independent Auditor's Report

To the Shareholders of Arcus Holding A/S

## Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2018 and of the results of the Group's and the Parent Company's operations for the financial year 1 January - 31 December 2018 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Arcus Holding A/S for the financial year 1 January - 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company ("the Financial Statements").

## 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 Financial Statements" section of our report. We are independent of the Group 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 on 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, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

## Management's responsibilities for the Financial Statements

Management is responsible for the preparation of consolidated financial statements and parent company

# Independent Auditor's Report

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 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 Group's and 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 Group or 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 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 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 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 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 and the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

## Independent Auditor's Report

- 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 Group's and 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 Group and 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.
- 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.

Hellerup, 14 March 2019

**PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab

*CVR No 33 77 12 31*

Jens Otto Damgaard  
statsautoriseret revisor  
mne9231

Allan Knudsen  
statsautoriseret revisor  
mne29465

## **Company Information**

### **The Company**

Arcus Holding A/S  
Banemarksvej 50  
DK-2605 Brøndby

CVR No: 38 33 03 65  
Financial period: 1 January - 31 December  
Incorporated: 1 January 2017  
Financial year: 2nd financial year  
Municipality of reg. office: Brøndby

### **Board of Directors**

Lars Thinggaard, Chairman  
Masanori Yamada  
Shuichi Shionoya  
David John Bateson  
Lars Larsen  
Darren Andrew Rayner

### **Executive Board**

Peter Andreas Pettersson

### **Auditors**

PricewaterhouseCoopers  
Statsautoriseret Revisionspartnerselskab  
Strandvejen 44  
DK-2900 Hellerup

# Financial Highlights

Seen over a two-year period, the development of the Group is described by the following financial highlights:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>DKK K</b>	<b>DKK K</b>
<b>Key figures</b>		
<b>Profit/loss</b>		
Revenue	1.520	693
Operating profit/loss	-82.381	-22.376
Profit/loss before financial income and expenses	-82.381	-22.376
Net financials	2.289	-3
Net profit/loss for the year	-73.250	-20.539
<b>Balance sheet</b>		
Balance sheet total	236.012	19.621
Equity	152.608	-19.835
Number of employees	56	11
<b>Ratios</b>		
Gross margin	N/A	N/A
Profit margin	N/A	N/A
Return on assets	N/A	N/A
Solvency ratio	N/A	N/A
Return on equity	N/A	N/A

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.



# Management's Review

Consolidated and Parent Company Financial Statements of Arcus Holding A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

## Key activities

The purpose of the Group is to be the global market leader within cloud offered Video management software (VMS). The purpose of the parent company is to develop the cloud-based VMS platform and commercialize it, either by itself, or through Group related companies. The Group is operating as standalone company within the Canon Group.

## Development in the year

The income statement of the Group for 2018 shows a loss of DKK 73,250,293, and at 31 December 2018 the balance sheet of the Group shows equity of DKK 152,608,473.

## Research and development

To become the global market leader within cloud-offered VMS, it is crucial that the Group can recruit and retain employees with high technical and commercial skills.

The Group is focusing on retention and development of employees by demonstrating respect for the individual, creating a motivating workplace, and offering opportunities for professional and personal development.

## Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

## Income Statement 1 January - 31 December

	Note	Consolidated		Parent company	
		2018	2017	2018	2017
		DKK	DKK	DKK	DKK
<b>Revenue</b>		<b>1.520.361</b>	<b>692.913</b>	<b>0</b>	<b>0</b>
Cost of sales		0	-186.763	0	0
Other external expenses		-7.876.675	-9.852.956	-31.870.530	-8.364.780
<b>Gross profit/loss</b>		<b>-6.356.314</b>	<b>-9.346.806</b>	<b>-31.870.530</b>	<b>-8.364.780</b>
Staff expenses	1	-64.667.470	-12.838.824	0	0
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-11.356.924	-190.823	-10.436.398	0
<b>Profit/loss before financial income and expenses</b>		<b>-82.380.708</b>	<b>-22.376.453</b>	<b>-42.306.928</b>	<b>-8.364.780</b>
Income from investments in subsidiaries		0	0	-41.091.441	-14.012.520
Financial income	2	3.509.125	91	5.305.000	0
Financial expenses	3	-1.220.599	-2.954	-1.998.813	-2.016
<b>Profit/loss before tax</b>		<b>-80.092.182</b>	<b>-22.379.316</b>	<b>-80.092.182</b>	<b>-22.379.316</b>
Tax on profit/loss for the year	4	6.841.889	1.840.695	6.841.889	1.840.695
<b>Net profit/loss for the year</b>		<b>-73.250.293</b>	<b>-20.538.621</b>	<b>-73.250.293</b>	<b>-20.538.621</b>

## Distribution of profit

### Proposed distribution of profit

Retained earnings				-73.250.293	-20.538.621
				<b>-73.250.293</b>	<b>-20.538.621</b>

# Balance Sheet 31 December

## Assets

	Note	Consolidated		Parent company	
		2018 DKK	2017 DKK	2018 DKK	2017 DKK
Completed development projects		70.624.763	0	70.423.068	0
Development projects in progress		7.777.510	7.774.120	8.617.216	7.808.647
<b>Intangible assets</b>	5	<b>78.402.273</b>	<b>7.774.120</b>	<b>79.040.284</b>	<b>7.808.647</b>
Other fixtures and fittings, tools and equipment		11.223.529	799.543	0	0
<b>Property, plant and equipment</b>	6	<b>11.223.529</b>	<b>799.543</b>	<b>0</b>	<b>0</b>
Investments in subsidiaries	7	0	0	0	0
<b>Fixed assets</b>		<b>89.625.802</b>	<b>8.573.663</b>	<b>79.040.284</b>	<b>7.808.647</b>
<b>Inventories</b>		<b>281.869</b>	<b>0</b>	<b>0</b>	<b>0</b>
Receivables from group enterprises		0	0	65.761.757	9.890.456
Other receivables		2.655.169	2.520.988	2.044.901	1.704.051
Deferred tax asset		8.733.156	1.840.695	8.682.584	1.840.695
Prepayments		867.379	847.748	0	0
<b>Receivables</b>		<b>12.255.704</b>	<b>5.209.431</b>	<b>76.489.242</b>	<b>13.435.202</b>
<b>Cash at bank and in hand</b>		<b>133.848.577</b>	<b>5.838.217</b>	<b>127.294.709</b>	<b>498.929</b>
<b>Currents assets</b>		<b>146.386.150</b>	<b>11.047.648</b>	<b>203.783.951</b>	<b>13.934.131</b>
<b>Assets</b>		<b>236.011.952</b>	<b>19.621.311</b>	<b>282.824.235</b>	<b>21.742.778</b>

# Balance Sheet 31 December

## Liabilities and equity

	Note	Consolidated		Parent company	
		2018 DKK	2017 DKK	2018 DKK	2017 DKK
Share capital		2.442.544	500.000	2.442.544	500.000
Reserve for development costs		78.402.273	0	78.402.273	0
Retained earnings		71.763.656	-20.335.070	71.763.656	-20.335.070
<b>Equity</b>		<b>152.608.473</b>	<b>-19.835.070</b>	<b>152.608.473</b>	<b>-19.835.070</b>
Credit institutions		0	338.996	0	0
Trade payables		11.314.638	1.972.054	180.000	150.000
Payables to group enterprises		0	0	74.609.249	8.406.789
Payables to associates		54.645.818	33.021.059	54.645.818	33.021.059
Other payables		17.443.023	4.124.272	780.695	0
<b>Short-term debt</b>		<b>83.403.479</b>	<b>39.456.381</b>	<b>130.215.762</b>	<b>41.577.848</b>
<b>Debt</b>		<b>83.403.479</b>	<b>39.456.381</b>	<b>130.215.762</b>	<b>41.577.848</b>
<b>Liabilities and equity</b>		<b>236.011.952</b>	<b>19.621.311</b>	<b>282.824.235</b>	<b>21.742.778</b>
Contingent liabilities	8				
Related parties	9				
Accounting Policies	10				

# Statement of Changes in Equity

## Consolidated

	Share capital	Share premium account	Reserve for development costs	Retained earnings	Total
	DKK	DKK	DKK	DKK	DKK
Equity at 1 January	500.000	0	7.774.120	-28.109.190	-19.835.070
Exchange adjustments	0	0	0	-1.983.396	-1.983.396
Cash payment concerning formation of entity	1.942.544	0	0	0	1.942.544
Cash capital increase	0	245.734.688	0	0	245.734.688
Development costs for the year	0	0	70.628.153	-70.628.153	0
Net profit/loss for the year	0	0	0	-73.250.293	-73.250.293
Transfer from share premium account	0	-245.734.688	0	245.734.688	0
<b>Equity at 31 December</b>	<b>2.442.544</b>	<b>0</b>	<b>78.402.273</b>	<b>71.763.656</b>	<b>152.608.473</b>

## Parent company

Equity at 1 January	500.000	0	7.774.120	-28.109.190	-19.835.070
Exchange adjustments	0	0	0	-1.983.396	-1.983.396
Cash payment concerning formation of entity	1.942.544	0	0	0	1.942.544
Cash capital increase	0	245.734.688	0	0	245.734.688
Development costs for the year	0	0	70.628.153	-70.628.153	0
Net profit/loss for the year	0	0	0	-73.250.293	-73.250.293
Transfer from share premium account	0	-245.734.688	0	245.734.688	0
<b>Equity at 31 December</b>	<b>2.442.544</b>	<b>0</b>	<b>78.402.273</b>	<b>71.763.656</b>	<b>152.608.473</b>

# Notes to the Financial Statements

	Consolidated		Parent company	
	2018 DKK	2017 DKK	2018 DKK	2017 DKK
<b>1 Staff expenses</b>				
Wages and salaries	56.171.276	11.531.637	0	0
Other social security expenses	3.422.990	615.831	0	0
Other staff expenses	5.073.204	691.356	0	0
	<b>64.667.470</b>	<b>12.838.824</b>	<b>0</b>	<b>0</b>
<b>Average number of employees</b>	<b>56</b>	<b>11</b>	<b>0</b>	<b>0</b>
<b>2 Financial income</b>				
Interest received from group enterprises	0	0	1.793.623	0
Other financial income	564.520	0	564.520	0
Exchange gains	2.944.605	91	2.946.857	0
	<b>3.509.125</b>	<b>91</b>	<b>5.305.000</b>	<b>0</b>
<b>3 Financial expenses</b>				
Interest paid to group enterprises	0	0	796.188	0
Interest paid to associates	1.189.271	0	1.189.271	0
Other financial expenses	24.026	2.631	6.052	1.693
Exchange adjustments, expenses	7.302	0	7.302	0
Exchange loss	0	323	0	323
	<b>1.220.599</b>	<b>2.954</b>	<b>1.998.813</b>	<b>2.016</b>
<b>4 Tax on profit/loss for the year</b>				
Current tax for the year	0	0	0	0
Deferred tax for the year	-6.841.889	-1.840.695	-6.841.889	-1.840.695
	<b>-6.841.889</b>	<b>-1.840.695</b>	<b>-6.841.889</b>	<b>-1.840.695</b>

# Notes to the Financial Statements

## 5 Intangible assets

### Consolidated

	Completed development projects DKK	Development projects in progress DKK
Cost at 1 January	0	7.774.120
Additions for the year	42.868.324	38.240.027
Transfers for the year	38.236.637	-38.236.637
Cost at 31 December	<u>81.104.961</u>	<u>7.777.510</u>
Amortisation for the year	<u>10.480.198</u>	<u>0</u>
Impairment losses and amortisation at 31 December	<u>10.480.198</u>	<u>0</u>
<b>Carrying amount at 31 December</b>	<b><u>70.624.763</u></b>	<b><u>7.777.510</u></b>

Development projects relate to the development of the existing Arcus's software offering and new functionality added to the existing platform. The new functionality will be released on an ongoing basis. The development is progressing according to plan through the use of the resources allocated by Management to the development. The new functionality is primarily targeted towards Enterprise customers, which are the customers targeted today. The functionality developed is based on input from various stakeholders within the VMS market, internally as well as externally.

### Parent company

	Completed development projects DKK	Development projects in progress DKK
Cost at 1 January	0	7.808.647
Additions for the year	42.622.829	39.045.206
Transfers for the year	38.236.637	-38.236.637
Cost at 31 December	<u>80.859.466</u>	<u>8.617.216</u>
Amortisation for the year	<u>10.436.398</u>	<u>0</u>
Impairment losses and amortisation at 31 December	<u>10.436.398</u>	<u>0</u>
<b>Carrying amount at 31 December</b>	<b><u>70.423.068</u></b>	<b><u>8.617.216</u></b>

# Notes to the Financial Statements

## 6 Property, plant and equipment

### Consolidated

	Other fixtures and fittings, tools and equipment <u>DKK</u>
Cost at 1 January	865.670
Additions for the year	<u>11.309.385</u>
Cost at 31 December	<u>12.175.055</u>
Revaluations at 1 January	<u>0</u>
Revaluations at 31 December	<u>0</u>
Impairment losses and depreciation at 1 January	66.127
Depreciation for the year	<u>885.399</u>
Impairment losses and depreciation at 31 December	<u>951.526</u>
<b>Carrying amount at 31 December</b>	<b><u>11.223.529</u></b>



## Notes to the Financial Statements

	<b>Parent company</b>	
	2018	2017
	DKK	DKK
<b>7 Investments in subsidiaries</b>		
Cost at 1 January	621	0
Additions for the year	0	621
Cost at 31 December	621	621
Value adjustments at 1 January	-13.808.961	0
Exchange adjustment	-1.983.396	203.551
Net profit/loss for the year	-41.091.441	-14.012.512
Value adjustments at 31 December	-56.883.798	-13.808.961
Equity investments with negative net asset value amortised over receivables	56.883.177	13.808.340
<b>Carrying amount at 31 December</b>	<b>0</b>	<b>0</b>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership	Equity	Net profit/loss for the year
Arcules, Inc.	USA	621	100%	-56.883.177	-41.091.441

	<b>Consolidated</b>		<b>Parent company</b>	
	2018	2017	2018	2017
	DKK	DKK	DKK	DKK
<b>8 Contingent liabilities</b>				
Rental and lease obligations	25.094.321	28.524.534	0	0

The Company is taxed jointly with other Danish companies in the Canon Group. The Company has unlimited and joint and several liability together with the other jointly taxed companies for Danish income tax and withholding taxes.

# Notes to the Financial Statements

## 9 Related parties

### Consolidated Financial Statements

The company is included in the group report for the parent company

Name	Place of registered office
Canon Inc.	Tokyo, Japan

# Notes to the Financial Statements

## 10 Accounting Policies

The Annual Report of Arcus Holding A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to enterprises of reporting class B as well as selected rules applying to reporting class C.

The Consolidated and Parent Company Financial Statements for 2018 are presented in DKK.

### Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

### Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, Arcus Holding A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

# Notes to the Financial Statements

## 10 Accounting Policies (continued)

### Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

## Income Statement

### Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Group.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

### Cost of sales

Cost of sales comprises the finished products consumed in achieving revenues for the year.

### Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

### Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

### Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

# Notes to the Financial Statements

## 10 Accounting Policies (continued)

### Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

### Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

### Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

## Balance Sheet

### Intangible assets

Costs for development projects include salaries, depreciation and other expenses that are directly or indirectly attributable to the company's development activities.

Clearly defined and identifiable development projects are stated as intangible fixed assets provided that there is sufficient certainty that the capital value of future earnings will cover sales, marketing and administrative costs as well as actual development costs.

Development costs that do not satisfy the criteria for inclusion in the balance sheet are stated as costs in the Income Statement as they are incurred.

Capitalized development projects are valued at cost less accumulated depreciation and amortization.

Capitalized development projects are depreciated linearly from the date of completion over the period in which they are expected to produce financial benefits, but not exceeding five years.

### Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

# Notes to the Financial Statements

## 10 Accounting Policies (continued)

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

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

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,500 are expensed in the year of acquisition.

### Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

### Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item "Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

### Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

# Notes to the Financial Statements

## 10 Accounting Policies (continued)

### Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

### Equity

The reserve for development include recognized development cost. The reserve cannot be used for paying dividends or cover for incurred losses. The reserve is reduced or dissolved by depreciation, or if, the recognized development costs ceases to be part of the Company's operations. This is done by transferring directly to distributable reserves in the equity.

### Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

### Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

### Financial debts

Loans are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

# Notes to the Financial Statements

## 10 Accounting Policies (continued)

### Financial Highlights

#### Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials} \times 100}{\text{Revenue}}$
Return on assets	$\frac{\text{Profit before financials} \times 100}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$