Arcus Holding A/S

Banemarksvej 50, DK-2605 Brøndby

Annual Report for 1 January - 31 December 2019

CVR No 38 33 03 65

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 14/9 2020

Anne Krebs
Chairman of the General Meeting

Contents

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 2019.

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 2019 of the Company and the Group and of the results of the Company and Group operations for 2019.

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

København, 14 September 2020

Executive Board

Peter Andreas Pettersson

Board of Directors

Lars Thinggaard Chairman	Masanori Yamada	Shuichi Shionoya
Darren Andrew Rayner	Lars Larsen	

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 2019 and of the results of the Group’s and the Parent Company’s operations for the financial year 1 January - 31 December 2019 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 2019, 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 Financials 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 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 September 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Allan Knudsen
statsautoriseret revisor
mne29465

Thomas Beltrão-Primdahl
statsautoriseret revisor
mne45342

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: 3rd financial year Municipality of reg. office: Brøndby
Board of Directors	Lars Thinggaard, Chairman Masanori Yamada Shuichi Shionoya Darren Andrew Rayner Lars Larsen
Executive Board	Peter Andreas Pettersson
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

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

	Group		
	2019	2018	2017
	TDKK	TDKK	TDKK
Key figures			
Profit/loss			
Revenue	4.832	1.520	693
Operating profit/loss	-111.643	-82.381	-22.376
Profit/loss before financial income and expenses	-111.643	-82.381	-22.376
Net financials	1.613	2.289	-3
Net profit/loss for the year	-100.851	-73.250	-20.539
Balance sheet			
Balance sheet total	183.203	236.012	19.621
Equity	141.498	152.608	-19.835
Number of employees	66	56	11
Ratios			
Gross margin	N/A	N/A	N/A
Profit margin	N/A	N/A	N/A
Return on assets	N/A	N/A	N/A
Solvency ratio	N/A	N/A	N/A
Return on equity	N/A	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 2019 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 2019 shows a loss of DKK 100,851,482, and at 31 December 2019 the balance sheet of the Group shows equity of DKK 141,498,123

The company expects substantial growth in both revenues and expenses as it expands into the marketplace. Currently, the company's going concern is dependent on financing from its shareholders and expects to require additional financing in the future. The company shareholders have acknowledged the future needs of the company, and have contracted to provide the company financing needs into 2021. While the company expects that the shareholders are likely to continue to provide financing, there is no assurance that the company will be able to obtain the additional financing required to continue operations beyond the existing commitments.

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.

Management's Review

Subsequent events

The Company's growth outlook for the future will be negatively affected by the COVID-19 outbreak and the measures taken by governments in most of the world to mitigate the impacts of the outbreak, see also subsequent events disclosures in note 2.

Before the COVID-19 outbreak, Management expected a significant revenue growth of and increased net loss for the year as compared to 2019. This was based on Management's assumption of significant new client acquisition of its services and increased investment in sales and marketing as well as product development of its service. The COVID-19 outbreak hit both The United States (the Companies primary marketplace) as well as the rest of the world, and Management expects this to have a negative impact on new client projects in 2020. This reduction of new client growth could impact the Company's expected growth rate by 50%, however the Company plans to partially mitigate the lower than expected growth rate with cost savings. The scope of the impact on profit is, however, unknown at this time as it is uncertain to what extent the Company will be able to recapture lost revenue later in the year.

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

Income Statement 1 January - 31 December

	Note	Consolidated 2019	Consolidated 2018	Parent company 2019	Parent company 2018
		DKK	DKK	DKK	DKK
Revenue		**4.831.514**	**1.520.361**	**684.108**	**0**
Cost of sales		-8.339.261	0	0	0
Other external expenses		-5.960.349	-7.876.675	-37.899.424	-31.870.530
Gross profit/loss		**-9.468.096**	**-6.356.314**	**-37.215.316**	**-31.870.530**
Staff expenses	3	-78.231.031	-64.667.470	0	0
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-23.944.078	-11.356.924	-18.557.208	-10.436.398
Profit/loss before financial income and expenses		**-111.643.205**	**-82.380.708**	**-55.772.524**	**-42.306.928**
Income from investments in subsidiaries		0	0	-57.855.845	-41.091.441
Financial income	5	2.245.665	3.509.125	4.203.473	5.305.000
Financial expenses	6	-632.487	-1.220.599	-605.131	-1.998.813
Profit/loss before tax		**-110.030.027**	**-80.092.182**	**-110.030.027**	**-80.092.182**
Tax on profit/loss for the year	7	9.178.545	6.841.889	9.178.545	6.841.889
Net profit/loss for the year		**-100.851.482**	**-73.250.293**	**-100.851.482**	**-73.250.293**

Distribution of profit

Proposed distribution of profit

	2019	2018
Retained earnings	-100.851.482	-73.250.293
	-100.851.482	**-73.250.293**

Balance Sheet 31 December

Assets

	Note	Consolidated 2019	Consolidated 2018	Parent company 2019	Parent company 2018
		DKK	DKK	DKK	DKK
Completed development projects		80.883.496	70.624.763	81.804.205	70.423.068
Development projects in progress		3.493.548	7.777.510	5.258.553	8.617.216
Intangible assets	8	**84.377.044**	**78.402.273**	**87.062.758**	**79.040.284**
Land and buildings		10.721.210	0	0	0
Other fixtures and fittings, tools and equipment		9.564.109	11.223.529	0	0
Property, plant and equipment	9	**20.285.319**	**11.223.529**	**0**	**0**
Investments in subsidiaries	10	0	0	0	0
Fixed assets		**104.662.363**	**89.625.802**	**87.062.758**	**79.040.284**
Inventories		**177.918**	**281.869**	**0**	**0**
Trade receivables		3.112.504	0	0	0
Receivables from group enterprises		0	0	0	65.761.757
Other receivables		731.725	2.655.167	731.730	2.044.899
Deferred tax asset	11	0	8.733.156	0	8.682.584
Prepayments		2.605.758	867.379	0	0
Receivables		**6.449.987**	**12.255.702**	**731.730**	**76.489.240**
Cash at bank and in hand		**71.912.924**	**133.848.577**	**64.780.391**	**127.294.709**
Currents assets		**78.540.829**	**146.386.148**	**65.512.121**	**203.783.949**
Assets		**183.203.192**	**236.011.950**	**152.574.879**	**282.824.233**

Balance Sheet 31 December

Liabilities and equity

	Note	Consolidated 2019 DKK	Consolidated 2018 DKK	Parent company 2019 DKK	Parent company 2018 DKK
Share capital		4.007.211	2.442.544	4.007.211	2.442.544
Reserve for development costs		0	0	70.057.146	78.402.273
Retained earnings		137.490.912	150.165.929	67.433.766	71.763.656
Equity		**141.498.123**	**152.608.473**	**141.498.123**	**152.608.473**
Provision for deferred tax	11	656.073	0	656.073	0
Provisions relating to investments in associates		0	0	9.902.999	0
Provisions		**656.073**	**0**	**10.559.072**	**0**
Lease obligations		15.364.756	0	0	0
Long-term debt	12	**15.364.756**	**0**	**0**	**0**
Lease obligations	12	3.118.272	0	0	0
Prepayments received from customers		83.021	0	0	0
Trade payables		1.729.499	11.314.638	60.000	180.000
Payables to group enterprises		0	0	457.681	74.609.249
Payables to associates		10.414.410	54.645.818	0	54.645.818
Other payables		10.339.038	17.443.021	3	780.693
Short-term debt		**25.684.240**	**83.403.477**	**517.684**	**130.215.760**
Debt		**41.048.996**	**83.403.477**	**517.684**	**130.215.760**
Liabilities and equity		**183.203.192**	**236.011.950**	**152.574.879**	**282.824.233**
Going concern	1				
Subsequent events	2				
Contingent liabilities	13				
Related parties	14				
Accounting Policies	15				

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	2.442.544	0	0	150.165.929	152.608.473
Exchange adjustments	0	0	0	-1.322.534	-1.322.534
Cash payment concerning formation of entity	1.564.667	0	0	0	1.564.667
Cash capital increase	0	89.498.999	0	0	89.498.999
Net profit/loss for the year	0	0	0	-100.851.482	-100.851.482
Transfer from share premium account	0	-89.498.999	0	89.498.999	0
Equity at 31 December	**4.007.211**	**0**	**0**	**137.490.912**	**141.498.123**

Parent company

	Share capital	Share premium account	Reserve for development costs	Retained earnings	Total
Equity at 1 January	2.442.544	0	78.402.273	71.763.656	152.608.473
Exchange adjustments	0	0	0	-1.322.534	-1.322.534
Cash payment concerning formation of entity	1.564.667	0	0	0	1.564.667
Cash capital increase	0	89.498.999	0	0	89.498.999
Development costs for the year	0	0	-8.345.127	8.345.127	0
Net profit/loss for the year	0	0	0	-100.851.482	-100.851.482
Transfer from share premium account	0	-89.498.999	0	89.498.999	0
Equity at 31 December	**4.007.211**	**0**	**70.057.146**	**67.433.766**	**141.498.123**

Notes to the Financial Statements

1 Going concern

The company expects substantial growth in both revenues and expenses as it expands into the marketplace. Currently, the company's going concern is dependent on financing from its shareholders and expects to require additional financing in the future. The company shareholders have acknowledged the future needs of the company, and have contracted to provide the company financing needs into 2021. While the company expects that the shareholders are likely to continue to provide financing, there is no assurance that the company will be able to obtain the additional financing required to continue operations beyond the existing commitments.

2 Subsequent events

The implications of COVID-19 with many governments, particularly the United States, enforcing “Shelter-in-Place” rules will have a significant impact on the economy and marketplace. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company.

To date, the Company has not been materially impacted by the effects of COVID-19, however the Company has plans for significant growth over the future quarters. As the marketplace expects to significantly reduce new projects in the short term, the Company expects its growth rate to be negatively impacted. Being a cloud-based software as a service (SaaS), its ability to provide service and maintain its operations is not expected to be materially impacted. The Company successfully transitioned its workforce to temporarily operate remotely mid-March. The Company began cost saving initiatives to partially mitigate any impact of slower than expected revenue growth in 2020. It is, however, too early to give an opinion as to whether and, if so, to what extent COVID-19 will impact earnings in 2020. Naturally, Management will attempt to accelerate new revenue later in the year.

3 Staff expenses

	Consolidated		Parent company	
	2019	2018	2019	2018
	DKK	DKK	DKK	DKK
Wages and salaries	67.897.961	56.171.276	0	0
Other social security expenses	4.218.873	3.422.990	0	0
Other staff expenses	6.114.197	5.073.204	0	0
	78.231.031	**64.667.470**	**0**	**0**
Average number of employees	**66**	**56**	**0**	**0**

Notes to the Financial Statements

		Consolidated		Parent company	
		2019	2018	2019	2018
		DKK	DKK	DKK	DKK
4	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**				
	Amortisation of intangible assets	19.235.534	10.479.728	18.557.208	10.436.398
	Depreciation of property, plant and equipment	4.708.544	877.196	0	0
		23.944.078	**11.356.924**	**18.557.208**	**10.436.398**
5	**Financial income**				
	Income from fixed asset investments	1.451.100	0	1.437.422	0
	Interest received from group enterprises	0	0	2.106.977	1.793.623
	Other financial income	794.565	564.520	659.074	564.520
	Exchange gains	0	2.944.605	0	2.946.857
		2.245.665	**3.509.125**	**4.203.473**	**5.305.000**
6	**Financial expenses**				
	Interest paid to group enterprises	0	0	185.033	796.188
	Interest paid to associates	193.668	1.189.271	8.636	1.189.271
	Other financial expenses	35.321	24.026	23.913	6.052
	Exchange adjustments, expenses	403.498	7.302	387.549	7.302
		632.487	**1.220.599**	**605.131**	**1.998.813**
7	**Tax on profit/loss for the year**				
	Current tax for the year	393.680	0	393.680	0
	Deferred tax for the year	-9.572.225	-6.841.889	-9.572.225	-6.841.889
		-9.178.545	**-6.841.889**	**-9.178.545**	**-6.841.889**

Notes to the Financial Statements

8 Intangible assets

Consolidated

	Completed development projects	Development projects in progress
	DKK	DKK
Cost at 1 January	81.104.961	7.777.510
Additions for the year	0	25.207.362
Transfers for the year	29.491.324	-29.491.324
Cost at 31 December	110.596.285	3.493.548
Impairment losses and amortisation at 1 January	10.477.255	0
Depreciation for the year	19.235.534	0
Impairment losses and amortisation at 31 December	29.712.789	0
Carrying amount at 31 December	**80.883.496**	**3.493.548**

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.

Notes to the Financial Statements

8 **Intangible assets** (continued)

Parent company

	Completed development projects	Development projects in progress
	DKK	DKK
Cost at 1 January	80.859.466	8.617.216
Additions for the year	0	26.579.680
Transfers for the year	29.938.344	-29.938.343
Cost at 31 December	110.797.810	5.258.553
Impairment losses and amortisation at 1 January	10.436.397	0
Depreciation for the year	18.557.208	0
Impairment losses and amortisation at 31 December	28.993.605	0
Carrying amount at 31 December	**81.804.205**	**5.258.553**

Notes to the Financial Statements

9 Property, plant and equipment

Consolidated

	Land and buildings	Other fixtures and fittings, tools and equipment
	DKK	DKK
Cost at 1 January	0	12.175.056
Net effect from change of accounting policy	13.940.123	0
Cost at 31 December	13.940.123	12.175.056
Revaluations at 1 January	0	0
Revaluations for the year	0	-169.790
Revaluations at 31 December	0	-169.790
Impairment losses and depreciation at 1 January	0	951.526
Depreciation for the year	3.218.913	1.489.631
Impairment losses and depreciation at 31 December	3.218.913	2.441.157
Carrying amount at 31 December	**10.721.210**	**9.564.109**

Notes to the Financial Statements

	Parent company	
	2019	2018
	DKK	DKK
10 Investments in subsidiaries		
Cost at 1 January	621	621
Additions for the year	0	0
Cost at 31 December	621	621
Value adjustments at 1 January	-56.883.798	-13.808.961
Exchange adjustment	-1.322.518	-1.983.396
Net profit/loss for the year	-57.855.845	-41.091.441
Value adjustments at 31 December	-116.062.161	-56.883.798
Equity investments with negative net asset value amortised over receivables	116.061.540	56.883.177
Carrying amount at 31 December	**0**	**0**

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%	-116.061.540	57.855.845

Notes to the Financial Statements

	Consolidated		Parent company	
	2019	2018	2019	2018
	DKK	DKK	DKK	DKK
11 Deferred tax asset				
Intangible assets	17.997.000	15.493.000	0	0
Property, plant and equipment	2.992.000	0	0	0
Trade receivables	-725.000	-725.000	0	0
Tax loss carry-forward	-19.607.927	-23.501.156	656.073	-8.682.584
Transferred to deferred tax asset	0	8.733.156	0	8.682.584
	656.073	**0**	**656.073**	**0**
Deferred tax asset				
Calculated tax asset	0	8.733.156	0	8.682.584
Carrying amount	**0**	**8.733.156**	**0**	**8.682.584**

Notes to the Financial Statements

12 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

	Consolidated		Parent company	
	2019	2018	2019	2018
	DKK	DKK	DKK	DKK
Lease obligations				
Between 1 and 5 years	15.364.756	0	0	0
Long-term part	15.364.756	0	0	0
Within 1 year	3.118.272	0	0	0
	18.483.028	**0**	**0**	**0**

13 Contingent liabilities

Contingent liabilities

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

14 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

15 Accounting Policies

The Annual Report of Arcus Holding A/S for 2019 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 2019 are presented in DKK.

Changes in accounting policies

Changes have been made in the financial statements regarding the recognition and presentation of operating lease contracts.

IFRS 16 has been adopted by applying the simplified approach. No comparative information has been restated as the simplified approach has been applied.

IFRS 16 has a significant impact on the balance sheet. At the beginning of January 2019, the new standard has affected the balance sheet with DKK 14 million as fixed assets and DKK 14 million as lease liabilities, and at the end of December 2019 the balance sheet is affected with DKK 11 million as fixed assets and DKK 18 million as lease liabilities.

The adoption of IFRS 16 has increased cost in the Income Statement by DKK 932,663. IFRS 15 has also been adopted in the financial statements as required by adoption of IFRS 16.

No comparative information has been restated as a result of the adoption. Apart from above, the financial statements have been prepared in accordance with the same accounting policies as last year.

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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.

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

Cost of sales

Cost of sales comprises the finished products consumed in acheiving 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.

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.

Notes to the Financial Statements

15 Accounting Policies (continued)

Balance Sheet

Intangible assets

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

Cleary defined and identifiable development projects are stated as intangible fixed assets provided that there is sufficient certainty that the capital value of future earningswill 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 the are incurred.

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

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

Property, plant and equipment

On acquisition [assets] are measured at cost comprising the acquisition price and costs of acquisition. The cost of own constructed [assets] comprises the acquisition price and expenses directly related to the acquisition, including costs of acquisition and indirect expenses for labour, materials, components and supsuppliers up until the time when the asset is ready for use.

Interest expenses on loans contracted directly for financing the construction of [assets] are recognised in cost over the construction period.

After the initial recognition [assets] are measured at fair value.

Fair value is the amount for which [the asset] could be exchanged between knowledgeable, willing parties in an arm's length transaction on the balance sheet date. The determination of fair value involves material accounting estimates.

The estimates applied are based on historical information and assumptions considered reasonable by Management but which are inherently uncertain and unpredictable. Actual events or circumstances will probably differ from the assumptions made in the calculations as often assumed events do not occur as expected. Such difference may be material. The assumptions applied are disclosed in the notes.

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

Notes to the Financial Statements

15 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 added revaluations and 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 13,800 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.

Notes to the Financial Statements

15 Accounting Policies (continued)

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

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.

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 payin 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.

Notes to the Financial Statements

15 Accounting Policies (continued)

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

15 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

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