Finalto A/S

Dampfærgevej 8, 4, 2100 København Ø

CVR no. 31 36 45 23

Annual report for 2022

Årsrapporten er godkendt på den
ordinære generalforsamling, d. 29.06.23

Matthew Maloney
Dirigent

Table of contents

Group information etc.

The company

Finalto A/S
Dampfærgevej 8, 4
2100 København Ø
Registered office: København
CVR no.: 31 36 45 23
Financial year: 01.01 - 31.12

Executive Board

Matthew John Maloney

Board of Directors

Matthew John Maloney
Mikkel Kallerup Olsen
Paul Groves
Stanislav Bunimovich

Auditors

BDO
Statsautoriseret revisionsaktieselskab

Statement by the Executive Board and Board of Directors on the annual report

We have on this day presented the annual report for the financial year 01.01.22 - 31.12.22 for Finalto A/S.

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

In our opinion, the consolidated financial statements and financial statements give a true and fair view of the group's and the parent's assets, liabilities and financial position as at 31.12.22 and of the results of the group’s and parent’s activities and of the group's cash flows for the financial year 01.01.22 - 31.12.22.

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, June 29, 2023

Executive Board

Matthew John Maloney

Board of Directors

Matthew John Maloney

Mikkel Kallerup Olsen

Paul Groves

Stanislav Bunimovich

To the Shareholder of Finalto A/S

Opinion

We have audited the consolidated financial statements and parent company financial statements of Finalto A/S for the financial year 01.01.22 - 31.12.22, 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 for the group as well as for the parent company as well as the consolidated cash flow statement. The consolidated financial statements and parent company financial statements are prepared in accordance with the Danish Financial Statements Act (Årsregnskabsloven).

In our opinion the consolidated financial statements and parent company financial statements give a true and fair view of the group's and the parent company's assets, liabilities and financial position at 31.12.22 and of the results of the group's and the parent company's operations and the consolidated cash flows for the financial year 01.01.22 - 31.12.22 in accordance with the the Danish Financial Statements Act (Årsregnskabsloven).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the “Auditor’s responsibilities for the audit of the consolidated financial statements and parent company financial statements” section of our report. We are independent of the group and the company in accordance with the International Ethics Standards Board for Accountants’ International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the consolidated financial statements and parent company financial statements

The 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. Furthermore the Management is responsible for the internal control as the Management determines is necessary to enable the preparation of consolidated financial statements and parent company financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements and parent company financial statements, management is responsible for assessing the group's and the parent 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 consolidated financial statements and parent company financial statements unless management either intends to liquidate the group and the company or to cease operations, or has no realistic alternative but to do so.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and parent company 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 consolidated financial statements and parent company 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 consolidated financial statements and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the parent 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 consolidated financial statements and parent company 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 parent 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 consolidated financial statements and parent company 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 consolidated financial statements and parent company financial statements, including the disclosures, and whether the consolidated financial statements and parent company 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 per-formance 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.

Statement regarding the management's review

Management is responsible for management's review.

Our opinion on the consolidated financial statements and parent company 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 consolidated financial statements and parent company financial statements, our responsibility is to read management’s review and, in doing so, consider whether management’s review is materially inconsistent with the consolidated financial statements or parent company 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 consolidated financial statements and parent company 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.

Copenhagen, June 29, 2023

BDO

Statsautoriseret revisionsaktieselskab
CVR no. 20 22 26 70

Søren Søndergaard Jensen
State Authorized Public Accountant
MNE-no. mne32069

GROUPS FINANCIAL HIGHLIGHTS

Key figures

Figures in DKK '000 for 2022 and DKKm for 2021	2022	2021
Profit/loss		
Gross profit	144,309	93
Operating profit	34,018	11
Total net financials	9,215	-10
Profit for the year	33,586	3
Balance		
Total assets	1,499,773	1,439
Investments in property, plant and equipment	5,208	2
Equity	205,960	181

Ratios

	2022	2021
Equity ratio		
Solvency ratio	14%	13%

As this is the first year that group accounts are prepared, only figures for 2022 and 2021 are shown in group financial highlights.

Ratios definitions

Return on equity: $\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$

Solvency ratio: $\frac{\text{Equity, end of year x 100}}{\text{Total assets}}$

Primary activities

Finalto A/S is the parent entity of a group of companies ("Finalto") and provides investment and technology solutions to its subsidiaries.

Finalto is a global innovator in the area of online trading of financial products. We take ideas and concepts and make them global industry leaders in their own space.

Development in activities and financial affairs

The income statement for the period 01.01.22 - 31.12.22 shows a profit/loss of DKK 33,586k against DKK 3m for the period 01.01.21 - 31.12.21. The balance sheet shows equity of DKK 205,960k.

During 2022, we introduced additional trading initiatives which can be affected by market conditions. 2022 saw an improved performance as a result of the implementation of the new initiatives. This resulted in the main trading subsidiary generating a small profit before tax.

So far in 2023, we have seen further improvement in financial performance as a result of the strong underlying liquidity business. This will also lead to a strong pipeline heading into 2024.

During 2022, Finalto performed well, with notable achievements in financial performance, system robustness and customer support. The key performance indicators monitored by the directors were client trading volumes, cash availability, the regulated entities solvency and diversification of clients. Regulatory capital is also monitored for FCA and MAS purposes in the UK and Singapore respectively. Each of these KPIs improved over the course of 2022.

Outlook

So far in 2023, we have seen further improvement in financial performance as a result of the strong underlying liquidity business. Budgeted EBITDA for Finalto in 2023 is $29.6m and so far in 2023 we in line with budget year-to-date. This will also lead to a strong pipeline heading into 2024.

The directors seek to build on Finalto’s high quality technology solutions, services and access to diverse liquidity offering during the coming year. To conclude, the directors believe that 2023 will be a strong year for the business as we grow on the foundations laid in 2022.

Knowledge resources

During the year the Finalto Group continued to invest in its customer support and Compliance functions. Finalto maintains the highest standards of regulatory and legal compliance and seeks to adhere to all relevant requirements. Finalto continued to benefit from the strength of its parent, Finalto Group Limited (IOM), and forms a key part of the Finalto Group offering multi-asset cross-margined products to a growing global client base.

External environment

The regulatory landscape is uncertain and continuously evolving which requires the regulated subsidiaries to remain up to date on any regulatory updates and changes.

Research and development activities

The companies' activities include the research and development of industry leading platforms and systems. Development costs are capitalised where appropriate.

Branches abroad

The company has a foreign branch in the United Kingdom which employees a number of Group functions that service the whole Finalto Group.

Income statement

Note		Group 2022 DKK '000	Group 2021 DKKm	Parent 2022 DKK '000	Parent 2021 DKKm
	Gross profit	**144,309**	**93**	**71,682**	**61**
1	Staff costs	-92,608	-66	-30,393	-23
	Profit before depreciation, amortisation, write-downs and impairment losses	**51,701**	**27**	**41,289**	**38**
	Depreciation, amortisation and impairments losses of intangible assets and property, plant and equipment	-17,683	-16	-13,358	-13
	Operating profit	**34,018**	**11**	**27,931**	**25**
2	Income from equity investments in group enterprises	0	0	5,112	-11
	Financial income	11,532	0	12,342	0
3	Financial expenses	-2,317	-10	-4,231	-8
	Profit before tax	**43,233**	**1**	**41,154**	**6**
	Tax on profit for the year	-9,647	2	-7,568	-3
	Profit for the year	**33,586**	**3**	**33,586**	**3**

Proposed appropriation account

	Group 2022 DKK '000	Group 2021 DKKm	Parent 2022 DKK '000	Parent 2021 DKKm
Reserve for net revaluation according to the equity method	0	0	5,112	-11
Retained earnings	33,586	3	28,474	14
Total	**33,586**	**3**	**33,586**	**3**

Balance sheet

ASSETS

Note		Group 31.12.22 DKK '000	Group 31.12.21 DKKm	Parent 31.12.22 DKK '000	Parent 31.12.21 DKKm
	Completed development projects	26,033	19	26,033	19
	Development projects in progress	3,559	3	0	0
5	**Total intangible assets**	**29,592**	**22**	**26,033**	**19**
	Land and buildings	1,647	3	1,647	3
	Leasehold improvements	628	1	0	0
	Other fixtures and fittings, tools and equipment	6,820	6	4,555	2
6	**Total property, plant and equipment**	**9,095**	**10**	**6,202**	**5**
7	Equity investments in group enterprises	0	0	269,121	276
8	Deposits	935	1	558	1
	Total investments	**935**	**1**	**269,679**	**277**
	Total non-current assets	**39,622**	**33**	**301,914**	**301**
	Trade receivables	8,641	8	5	0
	Receivables from group enterprises	105,889	69	0	0
	Income tax receivable	0	11	0	1
	Other receivables	267	2	1,311	1
	Prepayments	3,615	2	0	0
	Total receivables	**118,412**	**92**	**1,316**	**2**
	Cash	**1,341,739**	**1,314**	**2,093**	**0**
	Total current assets	**1,460,151**	**1,406**	**3,409**	**2**
	Total assets	**1,499,773**	**1,439**	**305,323**	**303**

Balance sheet

EQUITY AND LIABILITIES

Note		Group 31.12.22 DKK '000	Group 31.12.21 DKKm	Parent 31.12.22 DKK '000	Parent 31.12.21 DKKm
9	Share capital	2,477	2	2,477	2
	Share premium	9,096	9	9,096	9
	Reserve for net revaluation according to the equity method	116,140	128	109,830	117
	Reserve for development costs	20,306	15	20,306	15
	Foreign currency translation reserve	2,699	-1	2,699	-1
	Retained earnings	55,242	28	61,552	39
	Total equity	**205,960**	**181**	**205,960**	**181**
10	Provisions for deferred tax	5,234	4	5,141	4
	Total provisions	**5,234**	**4**	**5,141**	**4**
11	Other payables	0	5	643	2
	Total long-term payables	**0**	**5**	**643**	**2**
11	Short-term part of long-term payables	1,255	1	1,255	1
	Payables to other credit institutions	0	1	0	0
	Trade payables	4,487	26	0	0
	Payables to group enterprises	62,678	3	82,280	108
	Income taxes	4,124	0	5,580	2
	Other payables	1,216,035	1,218	4,464	5
	Total short-term payables	**1,288,579**	**1,249**	**93,579**	**116**
	Total payables	**1,288,579**	**1,254**	**94,222**	**118**
	Total equity and liabilities	**1,499,773**	**1,439**	**305,323**	**303**

12 Contingent liabilities
13 Charges and security
14 Related parties

Statement of changes in equity

Figures in DKK '000	Share capital	Share premium	Reserve for net revaluation according to the equity method	Reserve for development costs	Foreign currency translation reserve	Retained earnings	Total equity
Group:							
Statement of changes in equity for 01.01.22 - 31.12.22							
Balance as at 01.01.22	2,477	9,096	128,382	14,854	-973	27,676	181,512
Foreign currency translation adjustment of foreign enterprises	0	0	-12,242	0	3,672	0	-8,570
Transfers to/from other reserves	0	0	0	5,452	0	-6,020	-568
Net profit/loss for the year	0	0	0	0	0	33,586	33,586
Balance as at 31.12.22	2,477	9,096	116,140	20,306	2,699	55,242	205,960
Parent:							
Statement of changes in equity for 01.01.22 - 31.12.22							
Balance as at 01.01.22	2,477	9,096	116,960	14,854	-973	38,529	180,943
Foreign currency translation adjustment of foreign enterprises	0	0	-12,242	0	3,672	0	-8,570
Transfers to/from other reserves	0	0	0	5,452	0	-5,451	1
Net profit/loss for the year	0	0	5,112	0	0	28,474	33,586
Balance as at 31.12.22	2,477	9,096	109,830	20,306	2,699	61,552	205,960

Consolidated cash flow statement

Note		Group 2022 DKK '000	Group 2021 DKKm
	Profit for the year	**33,586**	**3**
15	Adjustments	45,366	29
	Change in working capital:		
	Receivables	2,270	-44
	Payables	-9,549	158
	Cash flows from operating activities before net financials	**71,673**	**146**
	Income tax paid	-10,909	-4
	Cash flows from operating activities	**60,764**	**142**
	Purchase of intangible assets	-19,664	-6
	Purchase of property, plant and equipment	-5,208	-14
	Cash flows from investing activities	**-24,872**	**-20**
	Total cash flows for the year	**35,892**	**122**
	Cash, beginning of year	1,313,116	1,185
	Exchange (losses)/gains on cash equivalents	-7,269	7
	Cash, end of year	**1,341,739**	**1,314**
	Cash, end of year, comprises:		
	Cash	1,341,739	1,314
	Total	**1,341,739**	**1,314**

	Group		Parent	
	2022 DKK '000	2021 DKKm	2022 DKK '000	2021 DKKm

1. Staff costs

	2022 DKK '000	2021 DKKm	2022 DKK '000	2021 DKKm
Wages and salaries	86,385	57	26,381	21
Pensions	3,979	5	2,368	1
Other social security costs	196	2	175	0
Other staff costs	2,048	2	1,469	1
Total	92,608	66	30,393	23
Average number of employees during the year	133	115	53	44

Remuneration for the management:

Remuneration for the management: No remuneration has been paid to the Board of Directors. According to the Danish Financial Statements Act section 98b, remuneration to the Executive Board (one person) is not disclosed.

Three members of the Board of Directors are contractually employed by related parties within the Finalto Financial Services Limited. Their remuneration does not relate to the work regarding Finalto A/S. No remuneration is recharged to Finalto A/S

2. Income from equity investments in group enterprises

	2022 DKK '000	2021 DKKm	2022 DKK '000	2021 DKKm
Share of profit or loss of group enterprises	0	0	5,112	-11
Total	0	0	5,112	-11

	Group		Parent	
	2022 DKK '000	2021 DKKm	2022 DKK '000	2021 DKKm

3. Financial expenses

Interest, group enterprises	4,057	5	4,057	5
Other financial expenses	-1,740	5	174	3
Total	2,317	10	4,231	8

	Group		Parent	
	2022 DKK '000	2021 DKKm	2022 DKK '000	2021 DKKm

4. Proposed appropriation account

Reserve for net revaluation according to the equity method	0	0	5,112	-11
Retained earnings	33,586	3	28,474	14
Total	33,586	3	33,586	3

5. Intangible assets

Figures in DKK '000	Completed development projects	Development projects in progress
Group:		
Cost as at 01.01.22	63,825	4,741
Additions during the year	17,128	2,536
Disposals during the year	0	-1,785
Cost as at 31.12.22	80,953	5,492
Amortisation and impairment losses as at 01.01.22	-44,781	0
Impairment losses during the year	-10,139	-1,933
Amortisation and impairment losses as at 31.12.22	-54,920	-1,933
Carrying amount as at 31.12.22	26,033	3,559
Parent:		
Cost as at 01.01.22	63,825	0
Additions during the year	17,128	0
Cost as at 31.12.22	80,953	0
Amortisation and impairment losses as at 01.01.22	-44,781	0
Impairment losses during the year	-10,139	0
Amortisation and impairment losses as at 31.12.22	-54,920	0
Carrying amount as at 31.12.22	26,033	0

Development costs are measured at cost. Development costs comprise expenses, salaries and amortisation directly or indirectly attributable to development activities.

We have researched and developed a number of new project initiatives during 2022. These are developments to our proprietary trading software used for the provision of liquidity of foreign exchange and risk management and will generate additional revenue in the subsequent years.

The research and development costs associated with these new software’s have been recognised and capitalized at amortized cost and they are fully expected to continue to generate significant revenue in 2023 and future years.

6. Property, plant and equipment

Figures in DKK '000	Land and buildings	Leasehold improvements	Other fixtures and fittings, tools and equipment
Group:			
Cost as at 01.01.22	8,201	1,865	35,699
Additions during the year	0	0	5,208
Disposals during the year	0	-733	-14,992
Cost as at 31.12.22	8,201	1,132	25,915
Depreciation and impairment losses as at 01.01.22	-5,417	-263	-14,860
Depreciation during the year	-1,137	-241	-4,235
Depreciation and impairment losses as at 31.12.22	-6,554	-504	-19,095
Carrying amount as at 31.12.22	1,647	628	6,820
Interest for the year recognised in cost	1,649	0	0
Parent:			
Cost as at 01.01.22	8,201	305	14,105
Additions during the year	0	0	4,678
Cost as at 31.12.22	8,201	305	18,783
Depreciation and impairment losses as at 01.01.22	-5,417	-263	-12,186
Depreciation during the year	-1,137	-42	-2,042
Depreciation and impairment losses as at 31.12.22	-6,554	-305	-14,228
Carrying amount as at 31.12.22	1,647	0	4,555

7. Equity investments in group enterprises

Figures in DKK '000	Equity investments in group enterprises
Group:	
Foreign currency translation adjustment of foreign enterprises	-273
Net profit/loss from equity investments	273
Revaluations as at 31.12.22	0
Carrying amount as at 31.12.22	0
Parent:	
Cost as at 01.01.22	159,564
Cost as at 31.12.22	159,564
Revaluations as at 01.01.22	116,961
Foreign currency translation adjustment of foreign enterprises	-12,516
Net profit/loss from equity investments	5,112
Revaluations as at 31.12.22	109,557
Carrying amount as at 31.12.22	269,121

Name and registered office:	Ownership interest
Subsidiaries:	
Finalto Financial Services Limited, London	100%
Finalto Asia Pte Ltd, Singapore	100%

8. Other non-current financial assets

Figures in DKK '000	Deposits
Group:	
Cost as at 01.01.22	895
Additions during the year	40
Cost as at 31.12.22	935
Carrying amount as at 31.12.22	935
Parent:	
Cost as at 01.01.22	518
Additions during the year	40
Cost as at 31.12.22	558
Carrying amount as at 31.12.22	558

9. Share capital

The share capital consists of:

	Quantity	Total nominal value DKK'000
Share capital	2,477,413	2,477
Total		2,477

10. Deferred tax

Deferred tax as at 01.01.22	3,806	3	3,713	3
Deferred tax recognised in the income statement	1,428	1	1,428	1
Deferred tax as at 31.12.22	5,234	4	5,141	4

11. Long-term payables

	Repayment first year DKK '000	Outstanding debt after 5 years DKK '000	Total payables at 31.12.22 DKK '000	Total payables at 31.12.21 DKKm
Group:				
Other payables	1,255	0	1,255	6
Total	1,255	0	1,255	6
Parent:				
Other payables	1,255	0	1,898	3
Total	1,255	0	1,898	3

12. Contingent liabilities

Group:

Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on jointly taxed income etc. of the Group. The total amount of corporation tax payable is disclosed in the annual report of Consolidated Finalto A/S, which is the management company of the joint taxation. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the company's liability.

Parent:

Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on jointly taxed income etc. of the Group. The total amount of corporation tax payable is disclosed in the annual report of Consolidated Finalto A/S, which is the management company of the joint taxation. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the company's liability.

13. Charges and security

Parent:

The company has not provided any security over assets.

14. Related parties

Controlling influence	Basis of influence
Gopher Investments, Cayman Islands	Ultimate Parent Company

	Group	Parent
Balances	31.12.22 DKK '000	31.12.22 DKK '000
Receivables from group enterprises	105,889	0
Payables to group enterprises	-62,678	-82,280

Receivables from group companies recognised under current assets and short-term payables to group enterprises consist of balances which are settled on an ongoing basis and in accordance with the company's standard terms of agreement and payment. No write-downs have been made on the receivables.

15. Adjustments for the cash flow statement

Depreciation, amortisation and impairments losses of intangible assets and property, plant and equipment	17,683	16
Other adjustments	27,683	13
Total	45,366	29

16. Accounting policies

GENERAL

The annual report is presented in accordance with the provisions of the Danish Financial Statements Act for medium-sized groups and enterprises in reporting class C.

The accounting policies have been applied consistently with previous years.

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.

CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements comprise the parent and its subsidiaries in which the parent directly or indirectly holds more than 50% of the voting rights or by way of agreements exercises control.

All financial statements used for consolidation are prepared in accordance with the accounting policies of the group.

The consolidated financial statements consolidate the financial statements of the parent and its subsidiaries by adding together items of a uniform nature, eliminating intercompany income and expenditure, equity investments, intercompany balances and dividends as well as gains and losses resulting from transactions between the consolidated enterprises to the extent that the underlying assets and liabilities are not realised.

16. Accounting policies - continued -

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 and other non-monetary assets acquired in foreign currencies are translated using historical exchange rates.

On recognition of integrated foreign entities, monetary items are translated using the exchange rates applicable at the balance sheet date. Non-monetary items are translated using the exchange rates applicable at the date of acquisition or the date of subsequent revaluation or impairment of the asset. The items in the income statement are translated at the exchange rates applicable at the transaction date, while items derived from non-monetary items are translated at the historical exchange rates for such non-monetary items.

LEASES

Effective from 1 January 2019, the company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company’s incremental borrowing rate. Generally, the company uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

16. Accounting policies - continued -

fixed payments, including in-substance fixed payments;
variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
amounts expected to be payable under a residual value guarantee; and
the exercise price under a purchase option that the company is reasonably certain to exercise, lease payments in an optional renewal period if the company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the company's estimate of the amount expected to be payable under a residual value guarantee, or if the company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The company has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as payables. Subsequent to initial recognition, lease commitments are measured at amortised cost according to which the interest element of the lease payment is recognised in the income statement over the lease term.

INCOME STATEMENT

Gross profit

Gross profit comprises revenue and raw materials and consumables 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.

16. Accounting policies - continued -

Costs of raw materials and consumables

Costs of raw materials and consumables comprise raw materials and consumables used for the year as well as any changes in inventories, including any inventory wastage.

Write-downs of inventories of raw materials and consumables are also recognised under raw materials and consumables 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 DKKm
Completed development projects	3	
Buildings	8	0
Leasehold improvements	3-5	0
Other plant, fixtures and fittings, tools and equipment	3-5	0

Land is not depreciated.

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.

16. Accounting policies - continued -

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 entreprises

For equity investments in subsidiaries that in the parent are 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 equity investments in subsidiaries also comprises gains and losses on the sale of equity investments.

Other net financials

Interest income and interest expenses, the interest element of finance lease payments, 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 and foreign consolidated enterprises. The parent is the administration company for the joint taxation and thus settles all income tax payments with the tax authorities.

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 Danish enterprises with a tax loss receive joint taxation contributions from other Danish enterprises which have been able to use this loss to reduce their own taxable profit. Danish enterprises using tax losses of foreign enterprises settle the joint taxation contribution for the tax loss used with the administration company in which the retaxation balance is recognised as a deferred tax liability.

16. Accounting policies - continued -

Other taxes

Other taxes comprises tax amounts that are calculated on a basis other than the income for the year.

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.

Gains or losses on the disposal of intangible assets

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

Property, plant and equipment

Property, plant and equipment comprise land and buildings, 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.

16. Accounting policies - continued -

The total cost of an asset is decomposed into separate components that are depreciated separately if the useful lives of the individual components vary.

Property, plant and equipment are depreciated using the straight-line method based on useful lives and residual values, which are stated in the 'Depreciation, amortisation and impairment losses' section.

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

Equity investments in group entreprises

Equity investments in subsidiaries are recognised and measured according to the equity method in the balance sheet of the parent. For equity investments in subsidiaries, the equity method is considered a measurement method.

On initial recognition, equity investments measured according to the equity method are measured at cost. Transaction costs directly attributable to the acquisition are recognised in the cost of equity investments. However, transaction costs on the acquisition of subsidiaries are recognised in the income statement in the consolidated financial statements at the date incurred.

On subsequent recognition and measurement of equity investments according to the equity method, 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 goodwill and gains and losses on transactions with the enterprises in question. Equity investments, where information for recognition according to the equity method is not known, are measured at cost.

Gains or losses on disposal of equity investments are determined as the difference between the disposal 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.

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.

16. Accounting policies - continued -

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.

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.

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 account.

Equity

The net revaluation of equity investments measured according to the equity method is recognized in the financial statements of the parent 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 the financial statements of the parent in equity under reserve for development costs. The reserve is

16. Accounting policies - continued -

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 recognized in the balance sheet, and the remaining amount will be transferred to retained earnings.

Unrealised foreign currency gains and losses from the translation of the net investment in independent foreign entities are recognised in equity under the foreign currency translation reserve. The reserve is dissolved when the independent foreign entities are disposed of.

Grants received from the parent are recognised directly in equity under retained earnings, as the grants are treated as capital contributions.

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 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 relating to retaxation of losses previously deducted in foreign subsidiaries (international joint taxation) is recognised based on a specific assessment of the purpose of the individual subsidiary.

Deferred tax assets are recognised, following an assessment, at the expected realisable value through offsetting against deferred tax liabilities within the same tax jurisdiction or elimination in tax on future earnings.

Deferred tax is measured on the basis of the tax rules and at the tax rates in the respective countries 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.

16. Accounting policies - continued -

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.

CASH FLOW STATEMENT

The cash flow statement is prepared using the indirect method, showing cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities comprise the net profit or loss for the year, adjusted for non-cash operating items, income tax paid and changes in working capital.

Cash flows from investing activities comprise payments in connection with the acquisition and divestment of companies and financial assets as well as the purchase, development, improvement and sale of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the parent's share capital and associated costs and financing from and dividends paid to shareholders as well as the arrangement and repayment of long-term payables. Cash flows from financing activities also comprise finance lease payments.

Cash and cash equivalents at the beginning and end of the year comprise cash.