# RTX Telecom A/S

## Annual report 2005/06

**RTX Telecom A/S**
Strømmen 6
DK-9400 Nørresundby,
Denmark
Tel : +45 96 32 23 00
Fax : +45 96 32 23 10
VAT# : DK 17 00 21 47
Web : www.rtx.dk

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# FINANCIAL HIGHLIGHTS AND KEY RATIOS OF THE GROUP

| DKKm | 2001/02[1] | 2002/03[1] | 2003/04[1] | 2004/05 | 2005/06 |
|---|---|---|---|---|---|
| **Profit and loss account items** | | | | | |
| Net turnover | 214.0 | 178.9 | 222.0 | 317.2 | 285.1 |
| Gross profit | 178.8 | 148.7 | 144.2 | 179.4 | 152.3 |
| Operating profit/loss (EBIT) | 17.6 | -12.1 | -30.7 | -3.9 | -63.0 |
| Net financials | 8.8 | 7.8 | 5.9 | 4.0 | -1.5 |
| Profit/loss before tax | 26.4 | -4.3 | -24.8 | 0.1 | -64.5 |
| Profit/loss for the year | 18.0 | -3.5 | -17.3 | -1.1 | -64.7 |
| ***Balance sheet items*** | | | | | |
| Cash and current asset investments | 263.1 | 291.3 | 231.2 | 161.5 | 106.9 |
| Total assets | 472.0 | 493.6 | 447.1 | 452.4 | 408.9 |
| Equity | 384.9 | 392.4 | 374.9 | 366.5 | 304.6 |
| Liabilities | 87.1 | 101.2 | 72.2 | 85.9 | 104.3 |
| **Other key figures** | | | | | |
| Development costs | - | - | - | 29.8 | 46.3 |
| Depreciation, amortisation and impairment | 10.0 | 10.8 | 19.9 | 10.2 | 14.7 |
| Cash flows from operations | 40.5 | 26.4 | -30.5 | -47.7 | -46.2 |
| Cash flows from investments | -60.7 | -2.2 | -13.6 | 27.6 | 33.8 |
| Investments in tangible assets | 46.9 | 4.9 | 6.0 | 3.4 | 12.3 |
| Increase/decrease in cash and cash equivalents | -2.5 | 28.2 | -60.1 | -27.0 | -11.7 |
| **Key ratios** | | | | | |
| Growth in net turnover (percentage) | 14.8 | -16.4 | 24.1 | 42.9 | -10.1 |
| Profit margin (percentage) | 8.2 | -6.8 | -13.8 | -1.2 | -22.1 |
| Return on invested capital (percentage) | 13.5 | -7.2 | -19.9 | -2.1 | -27.0 |
| Return on equity (percentage) | 4.8 | -0.9 | -4.5 | -0.3 | -19.3 |
| Equity ratio (percentage) | 81.6 | 79.5 | 83.8 | 81.0 | 74.5 |
| **Employment** | | | | | |
| Average number of full-time employees | 236 | 244 | 225 | 249 | 276 |
| Net turnover per employee (DKK '000) | 907 | 733 | 987 | 1.274 | 1.033 |
| Operating profit/loss per employee (DKK '000) | 74 | -50 | -136 | -16 | -228 |

# FINANCIAL HIGHLIGHTS AND KEY RATIOS OF THE GROUP

| DKKm | 2001/02[1] | 2002/03[1] | 2003/04[1] | 2004/05 | 2005/06 |
|---|---|---|---|---|---|
| **Shares (number of shares in thousands)** | | | | | |
| Average number of shares | 9,119 | 9,222 | 9,410 | 9,285 | 9,300 |
| Average number of diluted shares [2] | 9,260 | 9,384 | 9,580 | 9,406 | 9,364 |
| **Share data, DKK per share at DKK 5** | | | | | |
| Profit/loss for the year (EPS) | 2.0 | -0.4 | -1.8 | -0.1 | -7.0 |
| Profit/loss for the year, diluted (EPS) | 1.9 | -0.4 | -1.8 | -0.1 | -6.9 |
| Cash flows from ordinary operations | 3.8 | 1.1 | -3.7 | -5.1 | -4.9 |
| Dividends | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Equity value | 41.6 | 41.8 | 39.1 | 39.5 | 32.7 |
| Listed price | 90.0 | 65.1 | 53.3 | 135.5 | 73.0 |

Note: The Group's financial year runs from 1 October to 30 September.
The key ratios for 2005/06 have been prepared in accordance with the International Financial Reporting Standards (IFRS). Comparative figures for 2004/05 have been restated to the changed accounting policies in relation to the transition to reporting according to IFRS, see mention in note 1.
The stated key ratios have been calculated in accordance with "Recommendations and Ratios 2005" issued by the Danish Association of Financial Analysts.

1) Comparative figures for 2001/02, 2002/03 and 2003/04 have not been restated to the changed accounting policies upon transition to financial reporting according to IFRS, though they have been computed in accordance with the previous accounting policies based on the provisions of the Danish Financial Statements Act and the Danish Accounting Standards.

2) Including all outstanding warrants. A total of 64,300 warrants at DKK 5 have been issued in the years 2002 - 2004 (including) to a limited number of key employees which, upon full conversion, can be converted into 64,300 shares at DKK 5 in the period 20 January 2007 to 4 February 2009.

# COMPANY DETAILS

## Company

RTX Telecom A/S
Strømmen 6
9400 Nørresundby
Denmark

Central Business Registration No.: 17 00 21 47
Domiciled in: Aalborg municipality, Denmark

| | |
|---|---|
| Telephone: | +45 9632 2300 |
| Fax: | +45 9632 2310 |
| E-mail: | info@rtx.dk |
| Web-site: | www.rtx.dk |

| **Supervisory Board** | **Occupation** |
|---|---|
| Poul Lind, Chairman | Member of the Group Executive Board of DONG Energy A/S<br>Chairman of the Supervisory Board of 7 subsidiaries within the DONG Energy Group (wholly-owned)<br>Member of the Supervisory Board of MT Højgaard a/s<br>Member of the Supervisory Board of Monberg & Thorsen A/S |
| Per Møller, Deputy Chairman | Chairman of the Supervisory Board of Højgaard Holding A/S<br>Chairman of the Supervisory Board of MT Højgaard a/s<br>Chairman of the Supervisory Board of Atrium Partners A/S<br>Chairman of the Supervisory Board of Det Danske Klasselotteri A/S<br>Chairman of the Supervisory Board of Glunz & Jensen Fonden<br>Member of the Supervisory Board of Glunz & Jensen A/S<br>Member of the Supervisory Board of BioMar Holding A/S |
| Jørgen Dalby-Jakobsen,<br>Elected by the employees | Project Manager and Acoustics Coordinator M.Sc.E.E. of RTX Telecom A/S |
| Dennis Elgaard,<br>Elected by the employees | Sales Manager of RTX Telecom A/S |
| Jens Hansen | Member of Strategic Technology Group of RTX Telecom A/S<br>Managing Director of JH Venture A/S<br>Chairman of the Supervisory Board of Futarque A/S<br>Member of the Supervisory Board of JH Venture A/S |
| Christian Jørgensen | Executive Officer |

# COMPANY DETAILS

| **Supervisory Board** | **Occupation** |
|---|---|
| Jens Toftgaard Petersen | Head of Strategic Technology Group of RTX Telecom A/S |
| Mogens Westeraa | Consultant |

## Executive Board

| | |
|---|---|
| Tage Rasmussen | Managing Director of RTX Telecom A/S<br>Managing partner of Quinterion PLC, England<br>Member of the Supervisory Board of AM3D A/S |

## Auditors

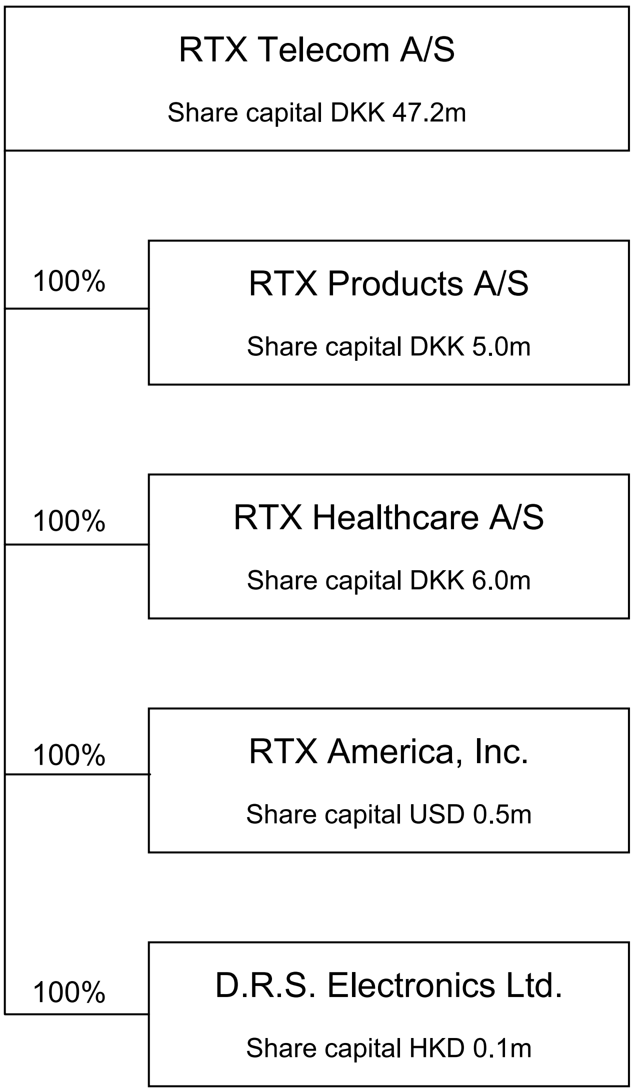
Deloitte Statsautoriseret Revisionsaktieselskab

## Annual General Meeting

On Wednesday 24 January 2007 at 4.00 p.m., an Annual General Meeting will be held at the Company's address Strømmen 6, 9400 Nørresundby, Denmark.

# THE GROUP, BUSINESS CONCEPT AND BUSINESS AREAS

## Group chart at 30 September 2006



# THE GROUP, BUSINESS CONCEPT AND BUSINESS AREAS

## Business concept

RTX Telecom is an internationally operating group which develops, produces and sells products, equipment and technological solutions within wireless communication and other telecom products.

It is the RTX Telecom Group's objective to be the customers' preferred supplier of advanced solutions within wireless technologies, in particular including DECT, DCT 2.4 GHz, Bluetooth$^{TM}$, GSM/GPRS, VoIP and W-LAN. Through flexibility, fast response time, high quality as well as thorough knowledge of the customers' production processes and market conditions, the Group aims to create added value for the customers' business areas.

The RTX Telecom Group is constantly striving to build up strong cooperative relations with important chip suppliers of wireless technologies. In this way, RTX Telecom obtains a unique and early access to state-of-the-art technology and global sales channels.

The Group aims to provide the same basic technology to different customers. Reuse of technology means that the customers obtain competitive prices and shorter time-to-market.

The Group's companies are striving to be attractive workplaces for the employees by offering competitive terms of employment and by promoting both a professional as well as a social working environment in an efficient, flexible and knowledge-based organisation. It is a constant wish to enhance the technological skills of the organisation within the disciplines SW, HW, RF, Silicon IP, project management as well as strengthening the capability of production and test handling through targeted recruiting, training, efficient knowledge sharing and retention of skilful employees. The Group recruits and trains its employees with a view to obtain the best possible synergy and flexibility between development projects within different technology areas and market areas.

It is RTX Telecom's objective to regain the financial strength and stability as well as maintain flexibility in order to continue investing significant resources into the Group's growth.

## Business areas

The RTX Telecom Group develops, produces and markets advanced and high-technological wireless technology solutions and products. So far, the Group has distinguished between income from customer-financed development projects and own products and has divided its own products into OEM/ODM products and own distributed products.

In the autumn of 2006, the Group has decided to cover the following four main areas: Technology projects, Consumer products, Network products as well as Healthcare and medical products. Regarding the latter three product groups, distinction is maintained between OEM/ODM products and own distributed products

# THE GROUP, BUSINESS CONCEPT AND BUSINESS AREAS

*Technology projects* comprise development and sale of wireless communications solutions for industrial customers. The development tasks are primarily focused around technologically advanced solutions within the technology areas DECT, DCT 2.4 GHz, Bluetooth$^{TM}$ and VoIP. The Group is working goal-directed to deliver the same basic technology to different industrial customers. Within this main area, RTX Telecom also develops test solutions, extensive test instruments and test equipment for production tests.

*Consumer products* comprise development, production and sale of wireless own distributed products such as USB DUALphone, DUALphone 3058, DUALphone 3088, LAN Cordless DUALphone, Wireless Telephone Line Extender (TLE), DECT Repeater and DECT handset. On the consumer area, it is the Group's strategy to deliver innovative quality products with high content of knowledge and technology within niche areas.

*Network products* comprise development, production and sale of technology solutions and sub-components for systems and telephone network. The network products are characterised by having high knowledge and technology content. Examples of products and solutions are in particular software, components and products for the IP based DECT Wireless Local Loop systems (WLL).

*Healthcare and medical products* comprise development, production and sale of wireless solutions for the healthcare industry, for instance products and solutions for remote monitoring of patients with chronic diseases.

# MANAGEMENT'S REVIEW

## Summary for the year

In the financial year 2005/06, the Group has used significant resources on extending the programme for own products as well as own development of new wireless niche products. The development effort has taken place for a longer period of time and required more development resources than anticipated. This has resulted in increased development costs and delayed sales income compared to the plans. The delays have for instance entailed that the first significant deliveries of the newly developed SIP based LAN Cordless DUALphone will be shipped in the first six months of the financial year 2006/07.

The Group has developed, delivered and invoiced the new products in the financial year 2005/06, including technology solutions and sub-components to a DECT Wireless Local Loop (WLL) system in Romania. The customer's launch of the system has, however, been significantly delayed which has resulted in the Group having to postpone deliveries to the Romanian customer until the next financial year. Management still believes that the developed IP based technology solution within DECT Wireless Local Loop (WLL) will contribute significantly both to turnover as well as earnings in the future.

On the European market, sale of DECT repeaters and wireless USB DUALphones has overall followed the plans. On the North American market, sale of USB DUALphones has, so far, been disappointingly low, for instance due to the fact that the expected distribution through large retail chains has not been implemented.

In the financial year 2005/06, the Group has carried out additional supplies of test instruments and test equipment, for instance including an extension of the delivered test solutions for Microsoft shipped in the financial year 2004/05. The test solution comprises development, production and delivery of test and measurement instruments for production test of the wireless part of Microsoft's games console Xbox 360™.

Based on the negative performance in terms of result and the unsatisfactory development in the past financial year, the Group's management has reviewed and assessed the Group's business activities, in the autumn of 2006, for the purpose of formulating a strategy for a focused and profitable development of the Group's activities.

The review has for instance entailed that the Supervisory Board has adopted a strategy entailing that the Group, in the near future, will focus its resources on fewer technologies and moving of certain of the Group's competences and activities to the subsidiary D.R.S., Electronics, Hong Kong and more low-wage areas, as well as changes are planned for the organisation of the sales and marketing activities whereby they, in future, to a higher degree than previously will follow the main business areas. The objective of the planned efforts is to improve the Group's overall competitiveness, for instance including creating more business with use of less resources.

As the strategy is going to be carried out in practice, there are expectations of achieving important improvements within the sales and marketing area, a significant reduction in the level for the Group's overheads, achievement of a more cost-effective organisation and improved risk management. These are all initiatives expected to contribute re-establishing a positive development in the Group's financial results.

# MANAGEMENT'S REVIEW

The strategy also entails that more of the activities which have proven to be unprofitable for the Group will be terminated or suspended as well as the extent of internal development projects will be reduced significantly. This is the explanation why the Management, as an initial step in the implementation of the focusing strategy, has implemented an extensive capacity reduction at the end of the financial year 2005/06 for the purpose of reducing the Group's level of costs.

The full financial effect of the adjustment performed in September 2006 is expected to show impact as from the third quarter of the financial year 2006/07.

The following highlights for the Group are for instance included in the annual report 2005/06:

- Net turnover has been decreased by 10.1% and amounts to DKK 285.1 million compared to 317.2 million last year.
- Operating profit/loss (EBIT) amounts to a negative DKK 63.0 million compared to a negative DKK 3.9 million last year.
- The profit/loss after tax amounts to a negative DKK 64.7 million compared to a negative DKK 1.1 million in 2004/05.
- In January 2006, RTX Telecom acquired the Hong Kong-based company D.R.S. Electronics Ltd.
- In the financial year 2006/07 a strategy will be implemented with the purpose of obtaining a positive and profitable development of the Group's activities.
- The Management expects a net turnover of DKK 310 - 350 million and an operating profit/loss (EBIT) in the interval a negative DKK 20 million to DKK 0 million for the financial year 2006/07.

*Key figures for the year*
In 2005/06 net turnover has been decreased by 10.1% to a total of DKK 285.1 million.

Operating profit/loss (EBIT) amounted to a negative DKK 63.0 million compared to a negative DKK 3.9 million last year. The profit/loss after tax amounted to a negative DKK 64.7 million compared to a negative DKK 1.1 million last year.

At 30 September 2006, the Group’s cash and cash equivalents and short-term current asset investments amounted to DKK 106.9 million equivalent to a decline of DKK 54.6 million compared to the same time last year.

At 30 September 2006, the Group’s equity amounted to DKK 304.6 million equivalent to a decline of DKK 61.9 million compared to the same time last year.

*2005/06 in retrospect*
In November 2005, the RTX Telecom Group entered into an agreement with Atlas Telecom Network Romania on development, production and delivery of 12 slot DECT repeaters. This agreement complements previously entered agreements, whereby the RTX Telecom Group contributes as supplier with development of technological solutions, sub-components and delivery of products for a DECT Wireless Local Loop (WLL) system.

# MANAGEMENT'S REVIEW

RTX Telecom's subsidiary, RTX Healthcare, entered into a development and delivery agreement in November 2005 with the American company Alere Medical Incorporated, which is a market leader in the healthcare industry specializing in wireless remote monitoring of patients with chronic diseases. RTX Healthcare is to develop, produce and deliver a wireless monitoring unit, the Daylink® Monitor, which is a user-friendly unit for remote reading and transmission of objective patient information, such as blood pressure, blood glucose, weight, etc.

In addition, the wireless Daylink® Monitor can register symptomatic data, for instance a patient's difficulty in breathing and well-being in general through a dynamic and interactive question/answer dialogue with the patient. Moreover, the wireless unit allows for interactivity and flexibility in relation to the patients' individual needs, such as the possibility of communicating messages and reminders about medication.

In January 2006, RTX Telecom acquired the Hong Kong-based company D.R.S. Electronics Ltd. The purchase price for the shares in D.R.S. Electronics Ltd. and the related tools and rights totals DKK 20 million, enterprise value. With this acquisition, RTX Telecom has improved its possibilities of delivering DECT terminals, for instance for the Group's newly developed WLL system.

RTX Telecom plans to extend on and further develop D.R.S. Electronics' current strategy and business model and in the years ahead, it is the intention to use the presence in the Far East by placing important development, test and logistics tasks from the RTX Telecom Group's other companies with D.R.S. Electronics Ltd., whereby the Group's customers and producers will benefit from the Group's presence in the Far East.

## Primary activity

### Business areas

RTX Telecom was established in May 1993 and since June 2000 the Company's shares have been listed at the Copenhagen Stock Exchange.

The RTX Telecom Group develops, produces and markets advanced and high-technological wireless technology solutions and products. Today, the Group's technology development is focused around advanced solutions within the technology areas DECT, DCT 2.4 GHz, Bluetooth™ and VoIP.

During the past 3 years, the Group has raised the sale of own developed wireless niche products significantly. On the contrary, the market for development of technology solutions for customers has developed negatively, in particular during the past year. As a consequence of this development, earnings from development, production, sale and distribution of own developed wireless niche products contribute relatively more to the Group's total earnings compared to previously where income primarily was related to customer-financed development projects and royalty.

# MANAGEMENT'S REVIEW

Future growth in earnings is primarily expected to come from the sale of own products sold through distributors or as OEM/ODM deliveries for industrial customers. In addition, the Group works with focus on maintaining the income level from customer-financed development contracts as a minimum.

In the autumn of 2006, the Group has decided to cover the four main areas: Technology projects, Consumer products, Network products as well as Healthcare and medical products.

## *Market conditions*

There is still an intense competition between the suppliers on the Group's traditional market segments within the telecom industry. It is the Group's assessment that the individual market segments still develops with differentiated growth rates and competitive conditions. The market for standardised DECT handset is in particular characterised by intense competition.

The market's and the customers' continued focus on reduction of cost has also influenced RTX Telecom's sales opportunities during the past financial year. Negotiations with potential customers on new projects are still characterised by uncertainty among the customers, both regarding specifications of the products and expectations for the market. The decision-making processes are still long and complex.

There are, however, market segments which the customers' find very interesting and which are characterised by high growth, for instance within VoIP (Voice over Internet Protocol) and Skype connection. Development within this area has proven positive for RTX Telecom and both through new product launches and through offers for development services, the Group has built a prominent position within the VoIP technology.

In January 2006, RTX Telecom acquired the Hong Kong-based company D.R.S. Electronics Ltd. in order to support the Group's growth strategy. With this acquisition, RTX Telecom has improved its possibilities of delivering DECT terminals, for instance for the Group's newly-developed WLL system, as well as the presence in the Far East can be used by placing important development, test and logistics tasks from the Group's other companies with D.R.S. Electronics.

During the year, the Group has initiated a sales effort focusing on products and projects with large technology and knowledge content.

# MANAGEMENT'S REVIEW

***Competition***

The difficult market trends within some of the Group's activities have forced a number of the Group's competitors to reduce prices of products, development services and components (chips) considerably. This development has also affected RTX Telecom's competitive situation which has resulted in RTX Telecom constantly improving its services in order to remain competitive as regards quality and efficiency - also compared to competitors from low-wage countries. There is also noted an increased indirect competition from component suppliers with their own customer support. This service supports the customers' development activities and the market for external development assistance, in the form of traditional turn-key projects within standard products, is by and large non-existing today. As mentioned previously, the Group attempts to counter the effects from this development by offering tasks with large complexity and knowledge content.

RTX Telecom aims to maintain its overall objective that all development projects are to generate profits as well as there is focus on the meaning of ensuring positive cash flow already from the start of the project. To meet this objective, the Group has together with its technological partners, e.g. SiTel Semiconductor, Holland continuously implemented new business initiatives to maintain existing customers and attract potential new customers. These initiatives have been taken in order to offer the customers high quality in deliveries at favourable prices.

***New market trends***

The interest in Wireless Multimedia and IP telephony is increasing which is reflected in various specific inquiries and customer orders placed with RTX Telecom for integration of the Group's technologies within these new product solutions. RTX Telecom's extensive experience in development of wireless telephones has proven large competitiveness within this technology area.

During the year, the Group has extended its cooperation with Skype who is currently the world's largest provider of Internet telephony. During the year, RTX Telecom has developed one of the first wireless Skype based telephones in the world. Without connection to a PC, this telephone supports both Skype's Internet telephony as well as the fixed telephone network. The Group expects that the future cooperation with Skype can be extended with even more products.

The delay in the penetration of 3G network for mobile telephony has in recent years resulted in increased interest in using different W-LAN technologies in 3G/4G similar systems. Teleoperators therefore feel compelled to offer new products directed towards different end-user segments. Applications and services using the facility of packet data transmission are gaining ground at the same time as the occurrence of increasingly complex terminals.

# MANAGEMENT'S REVIEW

The Group has identified a promising niche within network technologies as the Group, during the past year, has commenced delivery of these network components and terminals to Wireless Local Loop systems (WLL). The radio technology - from base or repeater to terminal - is still the well-known DECT technology whereas the actual transmission line (back bone) is IP based. The WLL system developed by the Group contains both telephony (DECT) and W-LAN connection enabling Internet connection (WiFi) for the user. In terms of price, the Group's WLL system is competitive and contains several technological possibilities for the users. Thereby, the system is attractive to both operator as well as user.

## Business conditions

***Technologies***

In the past financial year, the Group has mainly focused on maintaining its position within the already developed technologies such as DECT, Bluetooth, VoIP and WLL systems. As a result hereof the Group has had less focus on developing new technology areas.

*Wireless telecommunications in general*

The market situation of the Group's traditional markets has not changed materially over the past financial year. It still varies from area to area, geographically as well as technologically.

Engineer skills in many third world countries are being upgraded these years. This has resulted in an intensive price competition of development of standard products within wireless technology. The Management sees this development as a challenge and intends to take action to secure the Group's continued competitiveness, partly by extending the use of outsourcing and partly by extending the development department in the subsidiary D.R.S. Electronics Ltd., Hong Kong. The Group's focus will still be directed towards development of innovative products with high knowledge content, where the development of software mainly will take place in Denmark.

*DECT*

DECT is a standard for digital wireless telephony which is widely used in Europe, the Middle East, parts of the Far East and in South America. In a slightly modified form this standard has been introduced in USA in the middle of 2005 under the name DECT 6.0.

Most of the DECT products on the market are used in private households and this market is still dominated by few but large producers such as Siemens, Philips and Panasonic as well as Chinese producers.

RTX Telecom has maintained a close strategic cooperation with SiTel Semiconductor, Holland based on this producer's baseband and radio chips.

# MANAGEMENT'S REVIEW

Globally, RTX Telecom is probably the only development company which masters all facets of the DECT technology. RTX Telecom has maintained its strong position within development of advanced products for the DECT market through development of advanced technological solutions with high knowledge content, as for instance technological solutions with a fast response time which is critical regarding wireless communication with games consoles.

Competition on the more simple products has further intensified in the last financial year and an elimination is taking place among several producers in the Far East. The products are increasingly distributed and sold through retail chains and department stores to private consumers. The RTX Telecom Group has a relatively limited extent of activities within the simple DECT products.

In the few past financial years, the RTX Telecom Group has developed a number of the essential sub-components necessary to build up an advanced and inexpensive IP-, SIP-, VoIP- and DECT based Wireless Local Loop (WLL) system. The first customer on the system, Atlas Telecom Network, is launching the system in Romania and negotiations have been initiated regarding similar systems with potential customers in the Middle East and Latin America.

The DECT technology has proven to be a viable technology with its suitability within new applications, for instance games and monitoring/alarm. RTX Telecom's possibilities of maintaining the position within the DECT technology can thereby be strengthened through diffusion of the technology to these new applications.

*WDCT (Wireless Digital Cordless Telephony)/2.4 GHz/5.8 GHz*
WDCT is a DECT similar digital technology placed in the 2.4 GHz or 5.8 GHz frequency bands on the North American market.

RTX Telecom and SiTel Semiconductor can offer flexible module solutions within WDCT under the same concept as the DECT solutions. After the launch of DECT 6.0 in North America, the Group does, however, not expect a significant future market for the 2.4 GHz and 5.8 GHz technology.

*Bluetooth™*
Bluetooth is the name of a technology standard for short-distance wireless data transmission between different types of intelligent products.

RTX Telecom is still regarded as one of the leading companies within development of Bluetooth™ headset. This development work takes place in close cooperation with the chip supplier Cambridge Silicon Radio (CSR), UK.

During the past financial year, RTX Telecom has continued the cooperation with National Semiconductor on licensing of Intellectual Property for National Semiconductor's Bluetooth™-chips and for various module solutions. The Group still expects that these licensing activities will contribute with royalty income for RTX Telecom.

# MANAGEMENT'S REVIEW

Today, the Group has complete knowledge of all areas of the Bluetooth™ technology which means that the Group is able to adapt its solutions precisely to the customers' requests. RTX Telecom has demonstrated several times at the various Bluetooth™ conferences and workshops that RTX Telecom is among the leaders within Bluetooth™ technology.

*GSM/GPRS*
Based on the competitive conditions within GSM/GPRS, RTX Telecom has decided to phase out the sales and development activities within GSM/GPRS. The Group's future activities will solely comprise servicing of existing customers' technology solutions.

*TD-SCDMA*
The Group has previously decided to discontinue the Group's activities related to this technology developed for the Chinese market as there is still significant uncertainty on the decisions in China, including which operators are to be granted licences to operate the Chinese 3G network, which technologies one wants to use as well as when the decisions, if relevant, would be made.

*W-LAN (IEEE802.11)*
IEEE802.11a/b/g/n are a number of standards for wireless data networks. The standards operate in the 2.4 and 5.8 GHz frequency areas and can by now be used in most countries, including USA and Denmark. The standards offer the opportunity of transfer of up to 108 Mbits/s.

It is expected that IEEE802.11 and later on IEEE802.16 will be important standards in the wireless integration of the intelligent home as well as upon securing the users' mobility. In particular, great interest and potential is visible within the combination of W-LAN technology and RTX Telecom's technology for wireless telephones.

Several initiatives have been made to strengthen RTX Telecom's position within wireless IP telephony. It is the Management's conviction that the very W-LAN technology in years ahead will hold good potential for RTX Telecom as IP telephony is introduced to the mass market and as this market segment has high demands of IP telephony.

***Technology projects***
The Group's efforts to enter into new customer-financed development contracts have also been intensified in the past financial year. Assisted by the development department, the sales department has carried out an intense sales effort and cultivation of customers and they have succeeded in attracting new customers and tasks.

The Group's potential customers are for instance large international companies which either require to use their development resources on tasks within the building of core competences or which seek technology solutions with high knowledge content from a developer, for instance RTX Telecom.

# MANAGEMENT'S REVIEW

The sales department has kept focus on maintaining and extending the cooperation with existing customers, which for instance takes place as described in the Group's key account programme.

RTX Telecom has intensified the sale to customers who, besides actual development projects, also request production and delivery of products. RTX Telecom feels itself well-positioned to handle both development and production via RTX Telecom's long-term cooperation with a number of Electronic Manufacturing Services (Contract Manufacturers) in Europe and the Far East. These possibilities have been strengthened with the assumption of D.R.S. Electronics Ltd. in Hong Kong.

The marketing efforts will continuously be adjusted to the individual technology and market areas.

***Royalty***

RTX Telecom experiences continued intense competition and as a consequence of this a growing pressure in the market for steady lower costs. In order to lead potential customers through a difficult decision-making process, the Company has deliberately offered selected customers a lower payment for execution of the development projects in return for a royalty increase.

The change in payment profile involves a risk that total payments for these development projects will be lower if the products are not successful on the market. However, it is the Group's assessment that there are still good possibilities of maintaining the present level of earnings concerning royalty.

## *OEM/ODM products*

The strategy for this business area is that the Group develops and supplies innovative quality products with a large technological content created by the competences already present in the Group.

For some years, the Group has developed and produced OEM/ODM products. This type of product is marketed and distributed by the customers, and RTX Telecom's development of the products is carried out in close cooperation with the customers.

OEM/ODM products are typically only produced according to fixed customer orders which, in relative terms, limits the Group's risks in relation to the product sales compared to the stocking of finished products and the sale of the products through the Group's own distribution network.

The following will include examples of OEM/ODM products.

**Consumer products**

*DECT Repeater*

This product has been marketed and sold throughout several years. This is a niche product which only has the interest of a few DECT producers.

# MANAGEMENT'S REVIEW

*Wireless telephone line extender (TLE)*
The wireless telephone line extender makes it possible for “pay-per-view” television suppliers to establish a backward channel from the customers’ satellite set-top boxes. Isolated the satellite signal will not make it possible to establish a backward channel to the operator, however via the wireless telephone line extender a modem connection is established and thereby it is possible to establish the required backward channel. The backward channel is a necessary facility enabling the customers to order “pay-per-view” services or to participate in provided interactive games, etc. The Group has entered into a distribution agreement with the Dutch company Universal Electronics BV which has a well-defined sales and distribution system to operators of satellite television.

In the financial year 2005/06, a number of new product versions have been launched into the retail market in Europe and the product is marketed in a number of chain stores under the name Wireless Phone Jack.

**Network products**
*IP-DECT Wireless Local Loop system (WLL)*
In close co-operation with Atlas Telecom Network Romania, the Group has invested significant resources in further development and production of an IP based DECT Wireless Local Loop system (WLL). As supplier, the RTX Telecom Group contributes with development of technological solutions and sub-components as well as delivery of products for a complete DECT based telephone system consisting of an IP interface (Ethernet- and VDSL based) with GPS time synchronisation and remote controlled voltage supply, base stations, repeaters and various telephones and terminals.

The system's vital and central parts build on standard IP components which allows for implementation of an inexpensive and effective telephone system at a price significantly lower than the price for a GSM network, for instance. The WLL system also contains a W-LAN connection which allows broadband Internet connection for the user.

Primarily, the system has been adjusted for use in eastern and central parts of Europe where some places lack basic telephone systems. The system can, however, also be used in other geographical areas with similar requirements and work is already being carried out on development of test and demonstration systems in a number of countries outside Europe.

*Wireless Music System*
The Group has developed a combined music, calling and alarm system for use in noisy factory buildings where hearing protection is required. At the present time, there has proven to be a cautious interest for this system which means that the Group in the short term alone will maintain sales activities for the music system directed at the Danish market.

## *Own distributed products*
The Group has chosen to maintain focus on the area of own distributed products partly to obtain a larger financial independence from customer-financed development contracts and partly to lead the way for customers in relation to new product ideas. The own distributed products are in line with the OEM/ODM products characterised by the fact that it is innovative quality products with a considerable knowledge content.

# MANAGEMENT'S REVIEW

Once the right possibilities appear, the Group intends to extend the programme of own distributed products.

Below, is given an overview of the most important products in the Group's present product portfolio which have already been introduced into the market or which are expected to be introduced in the next financial year.

**Consumer products**

*USB DUALphone*

The Skype based wireless USB DUALphone has met sales expectations since it was launched in the autumn of 2004. Competition has intensified during the past financial year, though the Group has successfully maintained its leading position within this type of telephones. The Group has developed a new wireless USB DUALphone with colour display which is introduced on the market in the second quarter of the financial year 2006/07. The new product is marketed under the name DUALphone 3058.

The wireless USB DUALphone can be adjusted to other so-called "softphones", for instance MSN, Yahoo, SIP, etc and the USB DUALphone is expected still to be marketed and sold due to the continued extension of the market for IP telephony.

*DUALphone 3088 (Skype based LAN telephone)*

In the past financial year, the Group has used significant development resources on development of a Skype based telephone which works via access to the Internet without having a connection to a PC. The telephone can also be used as an ordinary wireless telephone. The Group has good expectations to this product as regards sales and the product is introduced on the market in the first quarter of the financial year 2006/07. This is a completely new market segment for Skype based telephones and the Group expects that competitors will launch similar products at the beginning of the calendar year 2007.

*LAN Cordless DUALphone*

In the past financial year, RTX Telecom has continued to invest significant resources in the development of a SIP based wireless telephone which was demonstrated in relation to the telecom operators initial transition to IP telephony and the appearance of dedicated Internet Telephony Service Providers (ITSP). In the product development, the Group has chosen to focus on the telecom operators' and the ITSPs' possibilities of offering new services in excess of IP telephony. LAN Cordless DUALphone can for instance show news, e-mails or other information supporting the telecom operators' and the ITSPs' business model in the form of sale of special services on subscription-like conditions.

The product has attracted good pre-interest among the telecom operators and ITSPs in USA and Europe, though final development of the product has been delayed. The product is complex as a server solution also must be offered and this must be adjusted to the individual operators' needs.

# MANAGEMENT'S REVIEW

IP telephony is still an interesting area for telecom operators and ITSPs, though the shift from traditional fixed-line telephony to IP telephony seems to take longer time than expected. The Group expects a continued expansion of the product line within VoIP and IP telephony, as IP telephony is expected to remain a growth area in years to come.

Launch of the LAN Cordless DUALphone on the market is expected in the second quarter of the financial year 2006/07.

***Technology projects***
*2.4 and 5.8 GHz testers based on the WDCT technology*
The portfolio of testers has primarily been developed to support production equipment at customers in relation to test of technology developed by the RTX Telecom Group. An example is the RTX2501 tester which is used upon test of wireless control of Microsoft's game pad Xbox 360$^{TM}$.

*Production test equipment*
For a number of years, the Group has developed production test equipment for use in test of electronics modules and end-tests of the customers' products and the Group's own products. By now, the Group has build up a highly competitive knowledge which benefits the Group within several technological areas. In the past financial years, there has been high activity within this area, however, as a consequence of relatively large customer dependence, the high activity level cannot necessarily be maintained from one financial year to the next financial year. Though, the area still has significant interest to RTX Telecom commercially.

***Cooperation with other companies***
Besides the wholly-owned subsidiaries RTX Products A/S, RTX Healthcare A/S, RTX America, Inc. and D.R.S. Electronics Ltd., RTX Telecom has minority holdings in LitePoint Corporation in Silicon Valley, California and in Thomsen Bioscience A/S, Nørresundby.

Historically, the cooperation with LitePoint Corporation has partly been at a technological level and partly at a marketing level.

Thomsen Bioscience has rented premises in the RTX Telecom's head office in Nørresundby and the two companies cooperate on development of a mobile detector of biological substances.

## Development in activities and finances

### Annual report 2005/06
The comment on accounts is, unless otherwise stated, based on consolidated figures in the annual report for 2005/06 and compared with similar consolidated figures for 2004/05. For changes in the applied accounting policies as a result of implementation of the new International Financial Reporting Standards (IFRS), we refer to a subsequent section below on page 36. For further and more detailed description of the changes and their effect on the annual report, we refer to notes 1 and 39 in the annual accounts for the Group and the Parent.

# MANAGEMENT'S REVIEW

**Consolidated profit and loss account**

*Net turnover*

In 2005/06, the Group realised a net turnover of DKK 285.1 million which represents a decline of 10.1% compared to last year’s net turnover of DKK 317.2 million. Thereby, net turnover has not met the original expectations which were a net turnover of DKK 400 - 430 million (after the acquisition of D.R.S. Electronics Ltd., Hong Kong in January 2006).

Income from contract development projects is computed to DKK 46.9 million which represents a decline of 38.0% compared to last year’s income of DKK 75.6 million. As a result of significant decline in order intake, the development projects have been characterised by a declining turnover during the financial year compared with last year.

Royalty income totals DKK 25.8 million which is an increase of 22.9% compared to last year’s income of DKK 21.0 million. Royalty income has proven an increasing tendency during the entire financial year which is due to increasing production with several of the Group's customers. The royalty increase thereby reflects the customers' success on the market with the developed products.

Sale of the Group's own products, etc amounts to DKK 212.4 million which is 3.7% below last year’s sale of own products which amounted to DKK 220.6 million. Production and deliveries within the Group's own product programmes have, during the financial year, mainly comprised DECT repeaters, wireless USB DUALphones, wireless Telephone Line Extenders (TLE), Wireless Local Loop (WLL) infrastructure products, GSM modules as well as test equipment.

The Group has used considerable resources extending the programme for own products, though the development activities on certain projects have, in the financial year 2005/06, taken longer time and required more development resources than expected. This has resulted in increased development costs and delayed sales income compared to the plans. The delays have for instance entailed that the first significant deliveries of the newly developed SIP based LAN Cordless DUALphone will be shipped in the first six months of the financial year 2006/07.

On the European market, sale of DECT repeaters and wireless USB DUALphones has overall followed the plans for 2005/06. On the North American market, sale of USB DUALphones has been disappointing, for instance due to the fact that the expected distribution through large retail chains in USA has not met expectations. Therefore, the Group has intensified focus on attaining distribution force through smaller retail chains in USA.

The sale of the wireless Telephone Line Extender (TLE) has not met expectations. For the purpose of strengthening sale of the wireless Telephone Line Extender, the Group has entered into a partnership agreement during the year with Universal Electronics BV, Holland, comprising global sale, distribution and marketing of the product exclusive on the North American market.

# MANAGEMENT'S REVIEW

The Group has had significant deliveries of newly developed technology solutions and sub-components for a DECT Wireless Local Loop (WLL) system in Romania. The customer's launch of parts of the system has, however, been significantly delayed which has resulted in the Group having to postpone deliveries to the Romanian customer to the next financial year.

**Turnover by business area**

| Amounts in DKKm | 2001/02 | *Share* | 2002/03 | *Share* | 2003/04 | *Share* | 2004/05 | *Share* | 2005/06 | *Share* |
|---|---|---|---|---|---|---|---|---|---|---|
| Development contracts | 107.4 | *50%* | 78.9 | *44%* | 94.2 | *43%* | 75.6 | *24%* | 46.9 | *16%* |
| Royalty | 44.2 | *21%* | 50.6 | *28%* | 23.1 | *10%* | 21.0 | *7%* | 25.8 | *9%* |
| Own products, etc. | 62.4 | *29%* | 49.4 | *28%* | 104.7 | *47%* | 220.6 | *69%* | 212.4 | *75%* |
| **Total net turnover** | **214.0** | ***100%*** | **178.9** | ***100%*** | **222.0** | ***100%*** | **317.2** | ***100%*** | **285.1** | ***100%*** |

*Gross profit*
RTX Telecom's gross profit amounted to DKK 152.3 million which is a decline of 15.1% compared to last year's gross profit of DKK 179.4 million.

*Other external expenses*
Other external expenses amounted to DKK 62.4 million which is an increase of 26.8% compared to 2004/05. The cost increase is for instance due to the fact that, in the period of comparison, reversal was carried out on previously performed provisions which turned out to be too high. Moreover, the development is affected by increased development costs and costs from 1 January 2006 in the acquired company, D.R.S. Electronics Ltd., Hong Kong.

*Staff costs*
Staff costs amounted to DKK 138.3 million which is 11.6% more than last year. Measured per employee this is an increase of 0.7%. The average number of employees in the Group has increased to 276 in 2005/06 which is an increase of 10.8% compared to the same period last year.

*Depreciation, amortisation and impairment*
The Group's depreciation, amortisation and impairment amounted to DKK 14.7 million compared to DKK 10.2 million during the same period last year. The item contains impairment of goodwill with DKK 3.8 million.

# MANAGEMENT'S REVIEW

*Operating profit/loss (EBIT)*

Operating profit/loss (EBIT) for the year amounted to a negative DKK 63.0 million which is a performance reduction of DKK 59.1 million compared to last year's operating profit/loss of a negative DKK 3.9 million. The attained operating profit/loss (EBIT) is significantly below expectations at the beginning of the financial year at which point operating profit/loss was expected in the interval DKK 5 million to DKK 20 million. Both net turnover as well as operating profit/loss are realised at the level of the reassessed expectations which the Management announced in August 2006 (see Stock Exchange announcement no 10/2006 dated 11 August 2006).

*Net financials*

Net financials were an expense of DKK 1.5 million compared to an income of DKK 4.0 million in the financial year 2004/05. The declining financial income is for instance due to loss for the year, acquisition of the subsidiary D.R.S. Electronics Ltd. as well as significant funds tied up deriving from the activities within sale of own products. Moreover, increases in the short market rate of interest have entailed that the Group has had a loss of DKK 3.8 million, net on the Group's short-term current asset investments. The major part of the Group's cash funds is invested in short-term current asset investments and deposits in banks.

*Net profit/loss before tax*

Net profit/loss before tax amounted to a negative DKK 64.5 million which is a decline of DKK 64.6 million compared to last year's profit/loss before tax at DKK 0.1 million.

*Tax on profit/loss for the year*

Tax on profit/loss for the year is recognised with a negative DKK 0.2 million. The amount consists of current tax with a negative DKK 0.4 million as well as change in deferred taxes with DKK 0.2 million. Tax on profit/loss for the year computed according to usual computation constitutes an income of DKK 16.4 million, net. The difference of DKK 16.6 million is not recognised in the profit and loss account in 2005/06, see below mention about deferred tax assets.

Based on the Management's expectations for the result for a 5 year period, assessment has been made of the deferred tax assets. The total tax base of deferred tax assets can, as at 30 September 2006, be computed to DKK 33.3 million, net. DKK 16.6 million hereof is not recognised in the balance sheet due to uncertainty regarding use of the deferred tax assets.

Deferred tax assets are recognised in the Group's balance sheet as at 30 September 2006 with a value of DKK 16.7 million, net.

*Net profit/loss for the year after tax*

Net profit/loss for the year was a negative DKK 64.7 million which is an increase of loss at an amount of DKK 63.6 million compared to last year's loss after tax at DKK 1.1 million.

The Supervisory Board recommends to the Annual General Meeting that the Group's loss for the year after tax to be covered by the reserves.

# MANAGEMENT'S REVIEW

*Earnings per share (EPS)*
Earnings per share (EPS) amounted to a negative DKK 7.0 compared to a negative DKK 0.1 the year before.

**Consolidated balance sheet and cash flows**
*Equity and capital conditions*
During the year, Group equity has decreased by DKK 61.9 million from 366.5 million to DKK 304.6 million. Share issue including premium has increased equity with DKK 2.2 million, loss for the year has decreased equity with DKK 64.7 million and share-based remuneration, including tax effect, has increased equity with DKK 0.6 million.

The equity ratio is 74.5% which is a decline of 6.5% compared to last year.

The Supervisory Board recommends to the ordinary Annual General Meeting on 24 January 2007 not to pay dividend for the financial year 2005/06.

The Company's holding of 125,000 treasury shares was acquired in the financial year 2004/05 with the purpose of partial hedging the liabilities related to the share options granted by the Company to a limited number of executives. The Company has not acquired or sold treasury shares in the financial year 2005/06.

The Company is authorised to acquire treasury shares of a total nominal value of 10% of the Company's share capital up to the next ordinary general meeting. The Company intends to use this authorisation to acquire an additional 25,000 shares before the Annual General Meeting on 24 January 2007.

*Consolidated cash flow, financing and cash*
Cash flows from operations amounted to a negative DKK 46.2 million which is a reduction of DKK 1.5 million compared to the 2004/05. Compared to last year, the decline is affected by significant changes in financial items, working capital and items with no effects on cash.

*Investments*
Cash flows from investments, comprising investments in intangible assets, tangible assets and other long-term assets totalled DKK 33.8 million compared to DKK 27.6 million in 2004/05. The largest change concerns net reduction of investment in bonds as well as acquisition of D.R.S. Electronics Ltd.

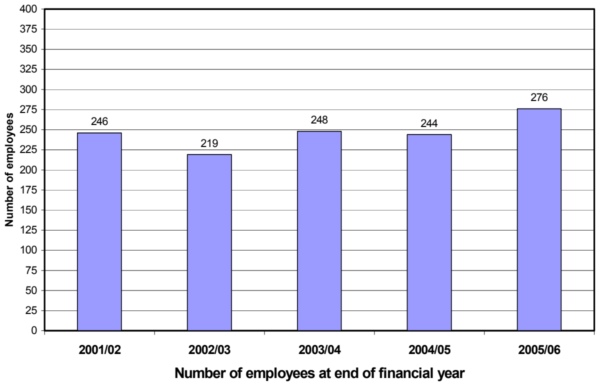
*Balance sheet*
At 30 September 2006, the Group’s balance sheet total amounted to DKK 408.9 million which is equal to a decline of DKK 43.5 million compared to last year. The decline in the balance sheet total represents an increase in long-term assets of DKK 6.9 million and a reduction of short-term assets of DKK 50.4 million.

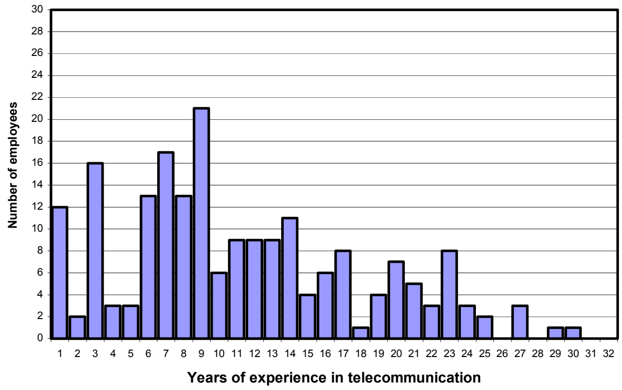
# MANAGEMENT'S REVIEW

*Management and employees*

At 30 September 2006, the Group employed 276 employees, 200 of which are engineers and technical staff. Compared to the same time last year, the total number of employees has increased with 32 persons, of this increase 18 persons are at year-end employed at the acquired subsidiary D.R.S. Electronics Ltd.

During 2005/06, 66 new employees jointed the Group, 24 of these upon acquisition of the subsidiary D.R.S. Electronics Ltd., Hong Kong. During the year, 34 employees left the Group. In addition, the Group has for part of the financial year temporarily employed a number of employees in order to execute large test equipment orders.




In a Stock Exchange announcement dated 21 March 2006, RTX Telecom's Supervisory Board informed that managing director Jørgen Elbæk due to health reasons would not be at the Company's full disposal for a period of up to 6 months, and that he after this period prefers to concentrate on selected strategic tasks for the Company.

In a Stock Exchange announcement dated 11 August 2006, RTX Telecom's Supervisory Board informed that Tage Rasmussen was appointed as new managing director with effect from 1 September 2006. Tage Rasmussen is 59 years old, from North Jutland and is a qualified engineer (M) from the Danish Engineering Academy. Tage Rasmussen's career has included work on development tasks, the management of major projects, sales and marketing and management duties, both at home and abroad.

At the end of September 2006, the RTX Telecom Group's management has initiated an extensive reduction in capacity in order to adjust the Group's costs. The adjustment by among other things comprised a reduction in staff with approximately 70 employees. The main part of the reduction was accomplished by dismissals. The redundancies were executed before the end of the financial year 2005/06. Resignation will take place in line with termination of some large development projects whereby the Group's critical and necessary competences and functions, including the development activities, remain intact.

# MANAGEMENT'S REVIEW

*Incentive schemes*

Upon resolution at the general meeting on 17 April 2000, the Supervisory Board has been authorised, at one or more times, to issue warrants up to a total nominal DKK 2,000,000 without pre-emption right for the Company's existing shareholders in relation to the offering of warrants to the Company's employees, Supervisory Board or Executive Board. The authorisation was in effect until 1 April 2005.

At the end of the financial year on 30 September 2006, a nominal DKK 321,500 granted unexercised warrants existed, equivalent to 64,300 warrants at DKK 5.

On 1 September 2006 in relation to the employment of managing director Tage Rasmussen, the Supervisory Board decided to grant share options to Tage Rasmussen at a nominal DKK 125,000, equivalent to 25,000 share options at DKK 5. The exercise price for the share options is fixed as the average rate for a period of five trading days immediately before the time of allocation on 1 September 2006 plus 5 percent per started year subsequent to the time of allocation.

Overall, RTX Telecom has as at 30 September 2006 granted a nominal DKK 789,580 share options equivalent to a total of 157,916 share options at DKK 5 to a limited number of executives.

The share options can in an ordinary course be exercised no earlier than 36 months after the time of issue and must be exercised 84 months after the time of issue. Special conditions have been agreed regarding exercise if extraordinary conditions should occur, for instance the employee's resignation during the period of agreement.

The granted share options account for approximately 1.7% of the Company's share capital.

## Subsidiaries

*RTX Products*

RTX Products A/S is a wholly-owned subsidiary which employed 50 employees at the end of the financial year.

RTX Products A/S handles the Group's production, sale and distribution of wireless niche products, including OEM/ODM products and own distributed products. Thereby, the subsidiary covers a business area which has strategic high priority within the Group.

RTX Products A/S' turnover amounted to DKK 193.8 million in 2005/06. The loss before financial income and expenses (EBIT) amounted to DKK 43.3 million and loss after tax amounted to DKK 47.9 million. At 30 September 2006, equity in RTX Products A/S was a negative DKK 15.7 million.

# MANAGEMENT'S REVIEW

*RTX Healthcare*
RTX Healthcare A/S is a wholly-owned subsidiary which employed 12 employees at the end of the financial year.

The subsidiary has focused on a relatively new and immature market within remote monitoring of patients with chronic diseases. Through its own and customer-related products, RTX Healthcare has build up important competences and a technological platform within this business area. These are significant factors in order to realise the Company's future growth potential.

RTX Healthcare A/S' turnover amounted to DKK 9.4 million in 2005/06. The loss before financial income and expenses (EBIT) amounted to DKK 3.9 million and loss after tax amounted to DKK 2.9 million. At 30 September 2006, equity in RTX Healthcare A/S was DKK 1.1 million.

*RTX America, Inc.*
RTX America, Inc. is a wholly-owned subsidiary which employed 4 employees at the end of the financial year.

The subsidiary is located in San Jose, California, USA and it handles sales and marketing tasks on the North American market. Moreover, the subsidiary handles technical product support to selected American customers.

RTX America, Inc.'s turnover amounted to DKK 13.2 million in 2005/06. Loss after tax amounted to DKK 1.3 million. At 30 September 2006, equity in RTX America, Inc. was DKK 1.0 million.

*D.R.S. Electronics Ltd., Hong Kong*
D.R.S. Electronics Ltd. is a wholly-owned subsidiary which employed 18 employees at the end of the financial year.

With effect from 1 January 2006, RTX Telecom acquired the Hong Kong-based company D.R.S. Electronics Ltd. The acquisition was primarily made for the purpose of using the presence in the Far East by outsourcing selected development, test and logistics tasks from the RTX Telecom Group's other companies to D.R.S. Electronics Ltd. whereby the Group's customers and producers in the Far East will benefit from the local presence. Moreover, with this acquisition, RTX Telecom has improved its possibilities of delivering DECT terminals, for instance for the Group's newly developed WLL system.

D.R.S. Electronics' turnover amounted to DKK 20.1 million in the period from acquisition on 1 January to 30 September 2006. The loss before financial income and expenses (EBIT) amounted to DKK 4.1 million and loss after tax amounted to DKK 4.6 million. At 30 September 2006, equity in D.R.S. Electronics Ltd. was a negative DKK 0.7 million.

# MANAGEMENT'S REVIEW

## Investments

*LitePoint Corporation, USA (www.litepoint.com)*

In 2001/02, RTX Telecom invested USD 1.5 million in LitePoint Corporation. The ownership amounts to 14.4%

LitePoint Corporation is a wireless chip technology company domiciled in Silicon Valley, California. The company employs engineers who all have long and wide experience in development and supply of Intellectual Property within wireless technologies, e.g. Wideband Code Division Multiple-Access (WCDMA), GSM/GPRS, IEEE802.11 a/b/g and Bluetooth™. The Company has expertise within component specifications and chip architecture.

The Company's present activities primarily comprise development, production and marketing of advanced wireless test solutions within the W-LAN technology. Moreover, development tasks within RF architecture and RF chip designs are delivered.

*Thomsen Bioscience A/S (www.thomsen-bioscience.com)*

Thomsen Bioscience A/S is a development company with focus on development and integration of advanced biological analytical methods in bio-chips. Bio-chips, also called intelligent lab-on-chips, are a kind of self-governing micro-labs in which biochemistry, biophysics, electronics and software are integrated. The technology can for instance be used for detection of biological weapons, veterinarian diagnostics, diagnostics of food products and diagnosing of infectious diseases.

Thomsen Bioscience A/S' objective is to develop portable sensor units which quickly and efficiently will facilitate detection of different forms of disease-causing, in particular air-borne, spores, bacteria and viruses and subsequent transmission of the retrieved data to a centrally based data treatment for the purpose of counteracting risks best possible.

In the spring of 2006, existing shareholders have granted convertible loan at an amount of DKK 7.5 million in order to strengthen the financial basis.

Since 2002, RTX Telecom has overall subscribed for shares in Thomsen Bioscience at a market value of DKK 7.0 million. RTX Telecom's ownership share in the company amounts to 19.8%.

## Uncertainty relating to recognition and measurement

RTX Telecom has significant deferred tax assets at the end of the financial year. Ordinary computation and measurement of the deferred tax assets will result in an asset of DKK 33.3 million, net. As a result of the unsatisfactory results which the Group has realised in recent years, there may be uncertainty as regards when it will be possible for the Group to use the developed assets. As a result of the uncertainty, the Group has chosen to recognise the deferred tax assets in the balance sheet as at 30 September 2006 with an amount of DKK 16.7 million, net. The non-recognised deferred tax assets amount to DKK 16.6 million.

# MANAGEMENT'S REVIEW

In relation to closing of the financial year, Management has performed an estimate of expected future taxable income in a five year period in the Group's jointly taxed companies. This estimate is included in the assessment as regards whether the deferred tax assets should be recognised on the balance sheet date.

## Unusual circumstances

During the year there has been a change in RTX Telecom's Executive Board. On 1 September 2006, Tage Rasmussen assumed the position as managing director after Jørgen Elbæk who resigned for health reasons.

Just before end of the financial year 2005/06, the Group has executed a large reduction by dismissals among the Group's employees in order to adjust the Group's costs.

### Particular risks

All investments in shares involve certain risk. The risk profile of RTX Telecom is partly a reflection of the day-to-day operations of the Group and partly a reflection of its continued development. In the following, a number of risk factors are presented which may impact on the future growth, operations, financial position and results of RTX Telecom. The factors mentioned are not necessarily all the factors which may involve a risk which the Group is exposed to, but they are the factors which the management considers to be of primary significance to the Group. It should be noted, that the order in which the risk factors are presented does not reflect a prioritized list. The description of risks should be considered in the context of the annual report in general.

**Business risks**

*Rapid technological changes and new markets*

The Group’s strategy is to continue to improve existing products as well as to develop and launch the results of its development efforts with new or improved functionality to meet the ever growing customer demands.

The RTX Telecom Group continuously aims at identifying and developing technological competences enabling the Group to produce technological solutions and products for which the customers will contract. In addition, it is the intention of the Group to be able to currently predict or react to the technological development to the extent required as well as to changes in customer preferences.

The Group is working with a goal-directed effort with detailed project and resource control tools which enables very fast reaction time in relation to inquiries by customers.

*Project management*

By focusing on project planning, the Group tries to ensure synergies between parallel development activities. The progress of the individual development projects is supervised by achievement of the planned milestones. Despite the complexity of the parallel development projects, RTX Telecom has so far been able to meet the customers' expectations and supply the projects agreed in time.

# MANAGEMENT'S REVIEW

*The ability to attract and retain skilled employees*
The employees represent RTX Telecom's most important asset and are also sometimes a scarce resource. In order to develop and market its products, the Group will continue to rely on its ability to attract, retain, motivate and train skilled employees.

The Group strives to be an attractive place to work for its employees by offering competitive terms of employment, by promoting both a professional and social working environment as well as by offering key employees to participate in an incentive scheme and by offering all employees the opportunity to subscribe for employee shares.

*Development of technology platforms*
Development of technology platforms involve development projects at the Group's own account launched in order to bring new knowledge and competences about new technologies to RTX Telecom.

A significant but varying portion of the Group's development projects will continue to be at the Group's own account. This will cause a considerable increase in costs in the short term and should be regarded as an investment in new technology.

New technology platforms are often developed in close co-operation with well-reputed international producers of chips. To some degree, RTX Telecom is dependent on delivery of the agreed technology from the producers of chips at the agreed time.

*Managing growth*
The Group's ability to remain competitive and to follow the defined strategy will depend, among other things, on its ability to control and effectively manage organisational growth and to integrate any companies that may be acquired. In order to effectively manage growth, the Group will need to continue to implement new systems and control routines, and to increase, train, integrate, motivate and effectively manage its staff.

*Possible fluctuations in interim results*
The Management is of the impression that a period-to-period comparison of the interim results realised by the Group will not necessarily provide a complete picture of the Group's financial situation and that such a comparison should not be used as an indication of the future results to be realised by the Group.

*Dependence on single customers*
Developers of the size of RTX Telecom may to some extent become dependent on single customers. During the past three financial years, approximately 70% of turnover was generated from the ten largest customers. The Group's three largest customers accounted for between 35% and 44% of turnover in the same period. As many of these are ”regular” customers, the Group is to some extent dependent on single customers. However, there have been variations in the Group's dependence on these customers and in the last three years the position as the largest single customer has been held by different companies.

# MANAGEMENT'S REVIEW

*Dependence on sub-suppliers*
Sub-suppliers in Denmark and abroad handle the majority of the Group's production. The Group depends on these sub-suppliers being able to produce and deliver the planned volume in the required quality. Significant movements in sales and contribution margin may occur if just some sub-suppliers do not deliver at the requested time and in the required quality.

RTX Telecom is continuously in open and close contact with the sub-suppliers in order to plan and monitor the deliveries, quality management systems and production. Moreover, through own developed production test equipment the Group has to a great extent ensured independence from suppliers and flexibility in the production.

*Sale of own distributed products*
In relation to the initiated activities with own distributed products, the Group has established its own marketing and independent distribution channels for these products. There is a risk that the own distributed products cannot be sold in the expected volume and at the expected sales price.

The development in the number of own distributed products will for instance depend on the identified business opportunities for niche products with a high knowledge content. The Group strives to reduce commercial risks by continuously adjusting the organisation to the character and the extend of the activities as well as maintaining well-developed planning tools for purchase, production, sale and cash flow.

*Limited protection of proprietary rights*
At present, RTX Telecom has applied for patents within a few key areas. In order to obtain a patent, the Group would have to reveal extensive details in its product specifications, and doing so would be contrary to the Group’s policy of concealing the technology of the products for which it would seek protection.

There can be no assurance that RTX Telecom’s efforts to protect its intellectual property rights will be sufficient or that the Group’s competitors will not develop similar technologies independently of the Group. If the Group does not successfully protect its intellectual property rights, this could have an adverse effect on the Group’s activities, result of operations and financial position in general.

**Financial risks**
*Currency risk*
During the past three financial years 70% to 86% of the Group's turnover derived from customers outside Denmark. This sale is primarily invoiced in currencies other than Danish kroner, whereas contract-based development, in-house development projects and a relatively small part of own production took place in Denmark. The main part of goods purchased from sub-suppliers is paid in foreign currencies.

# MANAGEMENT'S REVIEW

As a consequence of the large international activity, the Group's cash flows are influenced by exchange rate changes. If appropriate, RTX Telecom enters into transactions to hedge its commercial currency exposure in order to reduce the currency exposure. There can be no assurance that currency fluctuations will not have a material adverse effect on the Company's results of operations and financial development.

*Interest rate risk*
The Group is primarily exposed to interest rate risk through interest-bearing assets and liabilities. The overall purpose of management of the interest rate risk is to limit the negative effects of interest fluctuations on earnings and the balance sheet. Surplus cash is primarily invested in short-term solidly credit-rated cash bonds in Danish kroner or in money market deposits. The interest rate risk upon investments is managed based on a duration term compared to a pre-defined benchmark.

*Credit risks*
Ongoing assessment of the Group's credit risks related to trade receivables is performed. By experience, there may occur a relatively large credit risk from time to time as a large part of the receivables are often related to a relatively small number of counterparts and customers.

The Group's credit risk on work in progress may be significant as a large part of the stated value of development projects in progress, net often can be related to a relatively small number of counterparts and customers. Moreover, the customers requests regarding specifications and delivery times may in special cases result in tasks being started before final agreements are signed.

*Cash*
The Group's cash at bank and in hand primarily consist of deposits in respected banks and credit institutions. Thereby no particular credit risk is assessed as being related to the cash at hand and in bank. Bank deposits and bank debt bear floating interest rates.

## Knowledge resources

*Human Resources*
It is essential that the employees of the Group have wide knowledge of the engineering disciplines required to carry out high-technology development projects from definition to delivery of wireless communications services and products. The Group's employees have the required competences and this means that RTX Telecom is able to supply turnkey solutions and not only part solutions which require that the customers have to complete the project themselves.

# MANAGEMENT'S REVIEW

The Group is still prepared for growth as the structure of the organisation enables a prompt integration of more skilled employees. After the acquisition of D.R.S. Electronics Ltd., the Group has also ensured access to inexpensive development, logistic and quality assurance resources. An organisation which is ready for changes makes it possible with short notice to transfer and appoint engineers to technology areas with activity, but shortage of qualified staff. The project management is still being strengthened, and the technical competences within software, baseband and RF is currently updated.

Through visits to educational establishments and as the Group generally has a positive reputation among engineers within the industry, RTX Telecom has succeeded in maintaining the position as an attractive workplace for employees with the best professional skills and human qualifications, for instance by means of incentive schemes.

## Responsibility regarding environment and social conditions

For a number of years, RTX Telecom has worked systematically on maintaining satisfactory environmental and working environment conditions. The Group still strives to obtain continuous improvements besides the applicable requirements made by the official authorities.

The Group’s activities include development and sale of advanced and high-technological wireless development projects and products. In-house RTX Telecom only has a small physical production as the majority of the Group’s production is outsourced to cooperative partners in Europe and the Far East. Therefore, the Group’s impact on the environment essentially is indirect and in-house it is restricted to electricity and heating as well as completely insignificant chemical consumption.

The Group encourages its sub-suppliers to use environmentally acceptable raw materials and products, including observance of directives, which regulate the environmental production and handling of electronic equipment (the RoHS and WEEE directives).

## Research and development activities

RTX Telecom does not carry out any basic research of importance.

In the financial year 2005/06, the RTX Telecom Group has carried out important development activities. Significant internal resources have been used as well as incurred external development costs mainly concerning the development of a Skype based LAN DUALphone (DUALphone 3088), a SIP based LAN Cordless DUALphone as well as technology solutions and sub-components for an IP-DECT Wireless Local Loop system (WLL).

Development expenses incurred at the Group's own account have burdened the profit and loss account with DKK 46.3 million in 2005/06 compared to DKK 29.8 million last year. Development costs contain salaries and expenses directly related to the Group's internal development projects less any project income.

# MANAGEMENT'S REVIEW

The newly-developed products have not yet contributed significantly to turnover and earnings in the financial year 2005/06. In return, the revenue basis from own products in the subsequent financial years is expected to be strengthened as a result of the performed development effort.

## Events after the balance sheet date

The Supervisory Board has adopted a global strategy entailing that the Group in the near future will focus its resources on fewer technologies and moving of certain of the Group's competences to the subsidiary D.R.S., Electronics Ltd., Hong Kong and more low-wage areas, as well as changes are planned for the organisation of the sales and marketing activities whereby they in future to a higher degree than previously will follow the main business areas.

Implementation of the adopted focus strategy has been initiated.

As from the autumn of 2006, the Group covers the following four main business areas:

- Technology projects (including customer-financed development projects)
- Consumer products
- Network products
- Healthcare and medical products

To a certain extend it is expected that transfer will take place of a number of the Group's competences to external cooperative partners and to the subsidiary D.R.S. Electronics Ltd. in Hong Kong. Competences within both mechanics and electronic development as well as logistics and production operations are planned to be transferred to Hong Kong. Other parts of the Group's competences, for instance within test tasks and specific software development, are expected to be outsourced, for instance to low-wage areas in former Eastern Europe. However, the Group's high-profiled core competences and critical functions, including essential parts of the development activities, will remain intact in Denmark.

The Group's sales and marketing activities will be formed with focus on the four main business areas and the resources will be coordinated globally, which for instance entails that the Group's global sales and marketing efforts on all four main areas also will be supported by employees in USA and Hong Kong.

The strategy also entails that a number of the activities which have proven non-profitable are to be terminated as well as the extent of internal development projects are to be reduced significantly. This has resulted in the fact that the Management, as an initial step in the implementation of the focusing strategy, has implemented an extensive capacity reduction at the end of the financial year 2005/06 for the purpose of reducing the Group's level of costs. Within the Group's Danish companies, this adjustment has for instance included a reduction in staff with approximately 70 employees. The main part of the reduction was accomplished by dismissals. Resignation will take place in line with termination of some large development projects. The full financial effect of the performed adjustment is expected to have impact as from the third quarter of the financial year 2006/07.

# MANAGEMENT'S REVIEW

The purpose of the planned initiatives is to create a solid platform for the adopted global strategy as well as to improve the Group's overall competitiveness. The objective is to create more business with the use of fewer resources.

As the strategy is going to be carried out in practice, there are expectations of achieving important improvements within the sales and marketing area, a significant reduction in the level for the Group's overheads, achievement of a more cost-effective organisation and improved risk management. These are all initiatives expected to contribute re-establishing a positive development in the Group's financial results.

## Prospects for the financial year 2006/07

As mentioned in the previous section, RTX Telecom has initiated implementation of the focusing strategy with the purpose of introducing a number of strategic projects which are to support RTX Telecom's aim of realizing a satisfactory level of earnings.

It is the Management's assessment that the strategy will strengthen the potential for growth in the longer term by focusing the global sales and marketing tasks around a fewer number of product and technology areas. The Group will continue to invest in development of more new products in future financial years. The level of the Group's development activities will, however, be reduced compared to 2005/06.

During the last three years, the Group has invested significant amounts in development of new innovative wireless products with a high knowledge content. Activities regarding development of more new products have had high priority and certain products have successfully been introduced in previous financial years, including the wireless Telephone Line Extender (TLE), USB Cordless DUALphone and ODM products for a new DECT-based telephone system in Romania. In this financial year 2006/07, the Group plans to launch the following new products:

- a Skype based LAN DUALphone (DUALphone 3088)
- a Skype based USB DUALphone with colour display (DUALphone 3058)
- a SIP based LAN Cordless DUALphone

It is the Management's assessment that sale and earnings from own developed products in 2006/07 will be higher than in the closing financial year 2005/06. However, in particular forecasting sale of the new products is connected with some uncertainty.

It is expected that income from customer-financed development projects and royalty will be fairly at level with income in the financial year 2005/06.

The Group's investments in own development projects will, compared to the financial year 2005/06, be reduced significantly in 2006/07 and the development costs are expected as a whole to burden the profit and loss account. Not all the planned development projects will generate material turnover in the financial year 2006/07.

# MANAGEMENT'S REVIEW

Based on this, the Management expects that, during the financial year 2006/07, the RTX Telecom Group will realise a net turnover of DKK 310 - 350 million and an operating profit/loss (EBIT) in the interval a negative DKK 20 million to DKK 0 million. These expectations express a significant increase in the level of as well net turnover as EBIT compared to the realised level in 2005/06.

Net turnover and EBIT in the financial year 2006/07 are not necessarily expected to be equally distributed between the first and second half years ending 30 September 2007.

## Corporate Governance

In a report dated 6 December 2001, the Nørby Committee presented a number of recommendations for good corporate governance in Denmark.

RTX Telecom's Supervisory Board has a positive attitude towards the recommendations of the Nørby Committee. Further, the Supervisory Board has noted that RTX Telecom's Articles of Association and management principles are largely identical with the key recommendations in the report.

RTX Telecom will aim at following the concept of most of the important recommendations on good corporate governance, and in the following the Supervisory Board takes the opportunity to account for some of the key elements.

The Nørby Committee recommends that the Supervisory Board consists of no more than six directors elected by the general meeting and that the majority of directors are elected by the general meeting and are independent of the Company.

This recommendation is followed in respect of the number of directors elected by the general meeting. In the RTX Telecom Supervisory Board, three of the six members elected by the general meeting are independent of the Group. In addition, three of the board members are founders of the Company. It is the historical background of RTX Telecom that is the reason for the present composition of the Supervisory Board as the founders of the Company continue to hold significant competences in respect of the business activities carried out by the Company and they also own approx. 30% of the Company's share capital.

The members of the Supervisory Board elected by the general meeting are elected for a period of one year whereas employee representatives are elected for a period of four years. There is no limit to the period of time during which a person can sit on the Supervisory Board. A member can be re-elected until and including the year in which the member turns 70.

Seven board meetings were held in the financial year 2005/06, two of these meetings were held as conference calls.

RTX Telecom does not make use of board committees, nor does the Company carry out systematic evaluations of the Supervisory Board and Executive Board or of the cooperation between the two bodies.

# MANAGEMENT'S REVIEW

The Nørby Committee recommends the company to use quarterly reporting. At present, the Supervisory Board of RTX Telecom has chosen not to publish quarterly reports. The Supervisory Board is of the opinion that a period-to-period comparison of the quarterly results of the Group may fluctuate significantly and that this will not contribute to a better understanding of the Group's activities or provide an adequate picture of the assets and liabilities, financial position and results of the Group.

During the financial year 2006/07, the Supervisory Board will evaluate the Copenhagen Stock Exchange's announced revised recommendations for Corporate Governance and implement the measurements which the Supervisory Board evaluates will support the Group's development and earnings.

## Transition to financial reporting according to the International Financial Reporting Standards (IFRS)

The annual report for 2005/06 is prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports for listed companies. In relation to this, RTX Telecom has voluntarily chosen to present the annual report for the Parent according to IFRS as from the financial year 2005/06.

The transition to presentation according to IFRS has called for a number of changes in the Group's and the Parent's applied accounting policies. The most essential changes concern the following:

- Cessation of amortisation of goodwill.
- Reassessment of the residual value and basis of depreciation of tangible assets.
- Measurement of the Parent's shares in subsidiaries at the lower of cost and recoverable value.
- Recognition of fair market value adjustment of financial assets available for sale directly on equity.
- Recognition of share-based remuneration in the profit and loss account.
- Reclassification of certain balance sheet items.

For further description of the changes and their effect on the annual report, we refer to notes 1 and 39 in the annual accounts for the Group and the Parent.

# MANAGEMENT'S REVIEW

## Shareholder information

*Capital conditions*

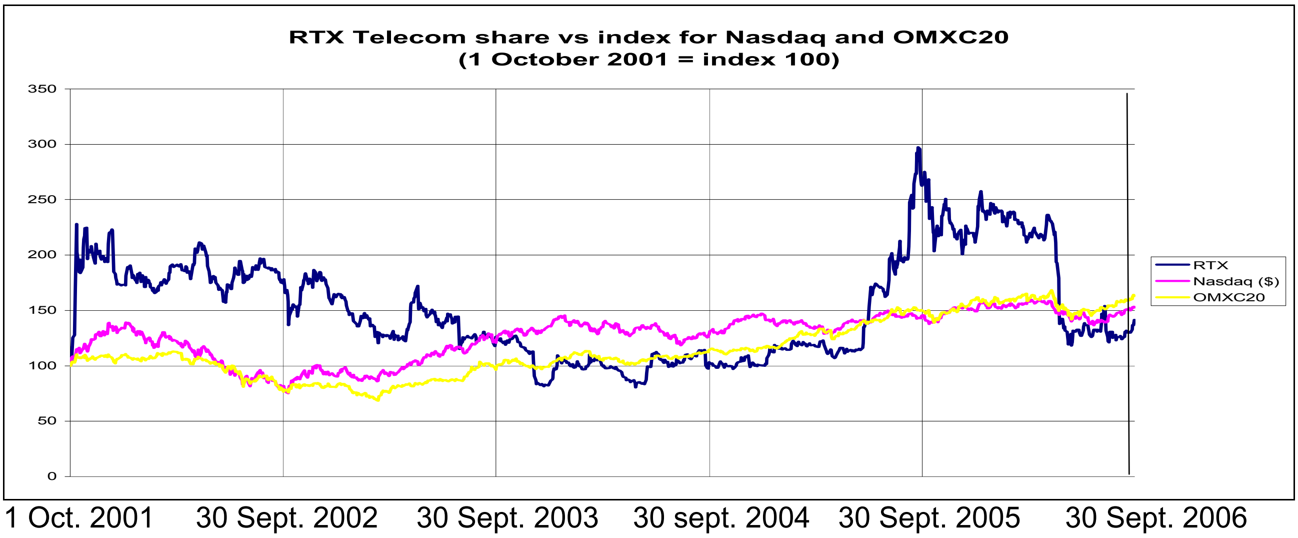
At 30 September 2006, the share capital of RTX Telecom had a nominal value of DKK 47,170,255 consisting of 9,434,051 shares of DKK 5 each. All shares carry the same rights and the shares are not divided into classes of shares.

*Treasury shares*

RTX Telecom's holding of treasury shares amounts to a nominal DKK 625,000, equivalent to 125,000 shares. The shares were acquired for a amount of DKK 7.4 million.

*Investor information*

Since June 2000, the Company’s shares have besen listed on the Copenhagen Stock Exchange (ISIN DK0010267129).




The closing price was DKK 73 on 30 September 2006 which is a decline of 46% on the closing price of 30 September 2005. In the financial year 2005/06, the highest price was DKK 141 and the lowest DKK 62.

The market value of the Company's shares amounted to approximately DKK 690 million at 30 September 2006.

*Dividend conditions*

RTX Telecom does not expect to pay dividends before the Group has obtained stability in its earnings. Once the required stability in earnings has been ensured, the Supervisory Board will assess the capital base in relation to the business volume and the Group's investment plans. Based on this, the Supervisory Board recommends the Annual General Meeting not to pay dividends for the financial year 2005/06.

# MANAGEMENT'S REVIEW

*Insider rules*

The Group's insider rules have been updated in accordance with changes as at 1 April 2005 in the Danish Securities Trading Act. The Executive Board, the Supervisory Board and executives as well as their closest family members are obligated to inform the Company about their transactions with the Company's shares for the purpose of subsequent reporting to the Copenhagen Stock Exchange.

In the internal rules, the Company has also chosen to operate with an insider list containing almost 300 persons who in their relation to the Company may possess internal, price-sensitive knowledge on the Group's conditions. Persons included on this insider list are only allowed to trade with the Company's shares for a period of four weeks after each of the Company's two annual periodical announcements to the Copenhagen Stock Exchange.

*IR policy and investor information*

RTX Telecom's objective is to ensure a high and consistent information level to the stock market's players for the purpose of creating a basis for fair pricing of the Company's shares - a pricing which constantly reflects the Group's strategy, financial ability and expectations for the future. The flow of information is to contribute to reducing the company-specific risk related to investment in the Company's shares whereby the Group's capital costs can be reduced to the lowest possible.

The Company strives to meet its objective by giving relevant, correct and adequate information in the Company's announcements to the Copenhagen Stock Exchange. In addition, the Group has an active and open dialogue with both analysts as well as current and potential investors. Regular meetings and telephone conferences are held with shareholders, investors and analysts in Denmark and abroad. The Executive Board participates in the meetings to the extent possible.

It is RTX Telecom’s policy that the Executive Board does not participate in meetings with investors and analysts or talk with the daily press in a period of 3 weeks before the issue of the announcement of the interim financial report and the annual report.

The Group also uses its web-site www.rtx.dk as a tool for communication with the stock market. On the web-site further information is available about the Group and its business areas.

# MANAGEMENT'S REVIEW

## Proposals for the Annual General Meeting

*Treasury shares*

It is recommended to the Annual General Meeting that the Supervisory Board, until the next ordinary general meeting, is authorised to allow the Company to acquire treasury shares within 10% of the share capital at the current listed price "all trades" at the time of acquisition with a deviation of up to 10%.

*Articles of Association*

*Register of shareholders*

The Supervisory Board makes a proposal for the Company's register of shareholders in future should be kept by Værdipapircentralen A/S and that section 5.4 in the Articles of Association should be brought in accordance with this. This proposal is made as a consequence of Danske Bank A/S' transfer of the bank's activities with keeping the register of shareholders to Værdipapircentralen A/S.

# ANNOUNCEMENTS AND FINANCIAL CALENDAR

## Announcements to the Copenhagen Stock Exchange in 2006 (up to and including 11 December 2006)

| | | |
|---|---|---|
| **10 January 2006** | No. 01 | Annual General Meeting of RTX Telecom to be held on 25 January 2006 |
| **25 January 2006** | No. 02 | RTX Telecom acquires Hong Kong-based D.R.S. Electronics Ltd., a developer, manufacturer and marketer of telecom products in exclusive Scandinavian design |
| **25 January 2006** | No. 03 | Annual General Meeting of RTX Telecom |
| **6 February 2006** | No. 04 | Extraordinary General Meeting of RTX Telecom to be held on Monday 27 February 2006 |
| **16 February 2006** | No. 05 | Exercise of warrants in RTX Telecom |
| **27 February 2006** | No. 06 | Extraordinary General Meeting in RTX Telecom |
| **21 March 2006** | No. 07 | Decision on search for new managing director to RTX Telecom |
| **1 May 2006** | No. 08 | RTX Telecom holds a meeting for financial analysts and the press on 24 May 2006 |
| **23 May 2006** | No. 09 | Interim annual report for the first six months of 2005/06 |
| **11 August 2006** | No. 10 | The Supervisory Board of RTX Telecom appoints new managing director. The Group revises expectations downwards of net turnover and EBIT for the financial year 2005/06. |
| **27 September 2006** | No. 11 | RTX Telecom initiates implementation of the focusing strategy |
| **18 October 2006** | No. 12 | RTX Telecom announces its financial calendar for 2006/07 |
| **11 December 2006** | No. 13 | Summary of annual report 2005/06 |
| **11 December 2006** | No. 14 | Annual report 2005/06 |

# ANNOUNCEMENTS AND FINANCIAL CALENDAR

## Financial calendar 2007

Expected dates for publication of financial information until 31 January 2008:

| | |
|---|---|
| **Beginning of January 2007** | Publication of the printed annual report for 2005/06 |
| **24 January 2007** | Ordinary Annual General Meeting |
| **24 May 2007** | Interim annual report for the first six months of 2006/07 |
| **December 2007** | Annual report for 2006/07 |
| **January 2008** | Ordinary Annual General Meeting |

## News on the Internet

The web-site **www.rtx.dk** includes announcements to the Copenhagen Stock Exchange, news as well as financial reports of the Group.

# CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL STATEMENTS

# PROFIT AND LOSS ACCOUNT FOR 2005/06

| | | Group | | Parent | |
|---|---|---|---|---|---|
| **Amounts in DKK '000** | **Note** | **2005/06** | **2004/05** | **2005/06** | **2004/05** |
| **Net turnover** | 3,4 | **285,107** | **317,226** | **180,107** | **177,228** |
| Cost of sales, etc | 5,8 | (132,762) | (137,835) | (38,441) | (46,700) |
| Other external expenses | 8,9 | (62,359) | (49,174) | (48,228) | (44,741) |
| Staff costs | 6,8 | (138,306) | (123,952) | (97,181) | (95,041) |
| Depreciation/amortisation/impairment | 7,8 | (14,692) | (10,214) | (6,131) | (6,333) |
| **Operating profit/loss (EBIT)** | | **(63,012)** | **(3,949)** | **(9,874)** | **(15,587)** |
| Dividends from subsidiaries | 16 | - | - | 0 | 0 |
| Financial income | 10 | 5,652 | 7,711 | 6,956 | 8,454 |
| Financial expenses | 11 | (7,107) | (3,682) | (16,302) | (4,149) |
| **Profit/loss before tax** | | **(64,467)** | **80** | **(19,220)** | **(11,282)** |
| Tax on profit/loss for the year | 12 | (201) | (1,145) | 1,363 | 2,956 |
| **Net profit/loss for the year** | | **(64,668)** | **(1,065)** | **(17,857)** | **(8,326)** |
| Earnings per share (EPS), DKK | 13 | (7.0) | (0.1) | | |
| Diluted earnings per share (DEPS), DKK | 13 | (6.9) | (0.1) | | |
| **Proposed distribution of profit/loss** | | | | | |
| Retained earnings | | | | (17,857) | (8,326) |
| | | | | **(17,857)** | **(8,326)** |

# BALANCE SHEET AT 30 SEPTEMBER 2006

| | | Group | | Parent | |
|---|---|---|---|---|---|
| **Amounts in DKK '000** | **Note** | **2006** | **2005** | **2006** | **2005** |
| **Assets** | | | | | |
| Completed development projects at the Group's own account | 14 | 1,282 | 3,846 | 0 | 0 |
| Licences | 14 | 2,479 | 3,098 | 2,479 | 3,098 |
| Goodwill | 14 | 7,884 | 5,803 | 0 | 0 |
| **Intangible assets** | | **11,645** | **12,747** | **2,479** | **3,098** |
| Land and buildings | 15 | 86,958 | 88,790 | 86,958 | 88,790 |
| Plant and machinery | 15 | 10,772 | 5,770 | 1,720 | 3,157 |
| Other fixtures and fittings, tools and equipment, etc | 15 | 4,985 | 3,886 | 3,863 | 3,169 |
| Leasehold improvements | 15 | 331 | 0 | 0 | 0 |
| **Tangible assets** | | **103,046** | **98,446** | **92,541** | **95,116** |
| Investments in subsidiaries | 16 | 0 | 0 | 32,882 | 31,000 |
| Other investments | 17 | 18,186 | 18,186 | 18,186 | 18,186 |
| Subordinated convertible loan | 17 | 3,511 | 845 | 3,511 | 845 |
| Deposits | 17 | 964 | 923 | 773 | 757 |
| Deferred tax assets | 18 | 17,489 | 16,746 | 9,329 | 9,329 |
| **Other long-term assets** | | **40,150** | **36,700** | **64,681** | **60,117** |
| **Total long-term assets** | | **154,841** | **147,893** | **159,701** | **158,331** |
| **Inventories** | 19 | **41,855** | **23,042** | **1,076** | **1,100** |
| Trade receivables | 20 | 91,489 | 98,455 | 42,839 | 66,244 |
| Contract development projects in progress | 21 | 3,305 | 7,188 | 3,105 | 6,163 |
| Receivables from subsidiaries | 16 | 0 | 0 | 97,372 | 18,692 |
| Income taxes | 12 | 0 | 583 | 0 | 583 |
| Other receivables | | 8,630 | 10,814 | 2,895 | 10,502 |
| Prepayments and accrued expenses | | 1,904 | 2,857 | 1,488 | 2,275 |
| **Receivables** | | **105,328** | **119,897** | **147,699** | **104,459** |
| **Short-term current asset investments** | 22 | **85,674** | **146,157** | **83,735** | **146,157** |
| **Cash at bank and in hand** | 23 | **21,177** | **15,373** | **13,677** | **13,211** |
| **Total short-term assets** | | **254,034** | **304,469** | **246,187** | **264,927** |
| **Total assets** | | **408,875** | **452,362** | **405,888** | **423,258** |

# BALANCE SHEET AT 30 SEPTEMBER 2006

| Amounts in DKK '000 | Note | Group 2006 | Group 2005 | Parent 2006 | Parent 2005 |
|---|---|---|---|---|---|
| **Equity and liabilities** | | | | | |
| Share capital | 24 | 47,170 | 47,048 | 47,170 | 47,048 |
| Share premium account | | 301,166 | 298,703 | 301,166 | 298,703 |
| Retained earnings | | (43,731) | 20,707 | (3,248) | 14,007 |
| **Equity** | | **304,605** | **366,458** | **345,088** | **359,758** |
| Mortgage debt | 26 | 24,612 | 26,509 | 24,612 | 26,509 |
| Other long-term payables | 26 | 0 | 2,000 | 0 | 0 |
| Deferred tax liabilities | 18 | 811 | 251 | 0 | 0 |
| Provisions | 27 | 800 | 694 | 0 | 0 |
| **Long-term liabilities** | | **26,223** | **29,454** | **24,612** | **26,509** |
| Current portion of long-term liabilities | 26 | 1,934 | 1,941 | 1,934 | 1,941 |
| Bank debt | 23 | 19,870 | 2,374 | 5,734 | 2,374 |
| Prepayments received from customers | | 0 | 340 | 0 | 0 |
| Trade payables | 28 | 22,782 | 11,729 | 2,905 | 2,669 |
| Contract development projects in progress | 21 | 876 | 6,979 | 642 | 6,979 |
| Payables to subsidiaries | 16 | 0 | 0 | 648 | 620 |
| Income taxes | 12 | 207 | 0 | 193 | 0 |
| Provisions | 27 | 3,640 | 461 | 3,120 | 0 |
| Other payables | 29 | 28,738 | 32,518 | 21,012 | 22,300 |
| Accruals | | 0 | 108 | 0 | 108 |
| **Short-term liabilities** | | **78,047** | **56,450** | **36,188** | **36,991** |
| **Total liabilities** | | **104,270** | **85,904** | **60,800** | **63,500** |
| **Total equity and liabilities** | | **408,875** | **452,362** | **405,888** | **423,258** |

Notes without references - see overall
note summary on page 50.

# EQUITY STATEMENT FOR THE GROUP

| Amounts in DKK '000 | Share capital | Share premium account | Retained earnings | Total |
|---|---|---|---|---|
| Equity at 1 October 2004 | 47,048 | 298,703 | 29,117 | 374,868 |
| Changed accounting policies according to IFRS | 0 | 0 | 0 | 0 |
| Reclassification | 0 | 0 | 0 | 0 |
| **Adjusted equity at 1 October 2004** | **47,048** | **298,703** | **29,117** | **374,868** |
| Foreign exchange rate adjustment of foreign subsidiary | 0 | 0 | 49 | 49 |
| **Income and expenses recognised directly on equity** | **0** | **0** | **49** | **49** |
| Net profit/loss for the year | 0 | 0 | (1,065) | (1,065) |
| **Total income for the year** | **0** | **0** | **(1,065)** | **(1,065)** |
| Acquisition of treasury shares | 0 | 0 | (7,394) | (7,394) |
| **Other transactions** | **0** | **0** | **(7,394)** | **(7,394)** |
| **Equity at 30 September 2005** | **47,048** | **298,703** | **20,707** | **366,458** |
| Share-based remuneration including tax effect | 0 | 0 | 601 | 601 |
| Foreign exchange rate adjustment of foreign subsidiaries | 0 | 0 | (372) | (372) |
| **Income and expenses recognised directly on equity** | **0** | **0** | **229** | **229** |
| Net profit/loss for the year | 0 | 0 | (64,668) | (64,668) |
| **Total income for the year** | **0** | **0** | **(64,668)** | **(64,668)** |
| Capital increase after exercise of granted warrants | 122 | 2,064 | 0 | 2,186 |
| Other adjustments | 0 | 399 | 1 | 400 |
| **Other transactions** | **122** | **2,463** | **1** | **2,586** |
| **Equity at 30 September 2006** | **47,170** | **301,166** | **(43,731)** | **304,605** |

# EQUITY STATEMENT FOR THE PARENT

| Amounts in DKK '000 | Share capital | Share premium account | Retained earnings | Total |
|---|---|---|---|---|
| Equity at 1 October 2004 | 47,048 | 298,703 | 29,117 | 374,868 |
| Changed accounting policies according to IFRS | 0 | 0 | 610 | 610 |
| Reclassification | 0 | 0 | 0 | 0 |
| **Adjusted equity at 1 October 2004** | **47,048** | **298,703** | **29,727** | **375,478** |
| Net profit/loss for the year | 0 | 0 | (8,326) | (8,326) |
| **Total income for the year** | **0** | **0** | **(8,326)** | **(8,326)** |
| Acquisition of treasury shares | 0 | 0 | (7,394) | (7,394) |
| **Other transactions** | **0** | **0** | **(7,394)** | **(7,394)** |
| **Equity at 30 September 2005** | **47,048** | **298,703** | **14,007** | **359,758** |
| Share-based remuneration including tax effect | 0 | 0 | 601 | 601 |
| **Income and expenses recognised directly on equity** | **0** | **0** | **601** | **601** |
| Net profit/loss for the year | 0 | 0 | (17,857) | (17,857) |
| **Total income for the year** | **0** | **0** | **(17,857)** | **(17,857)** |
| Capital increase after exercise of granted warrants | 122 | 2,064 | 0 | 2,186 |
| Other adjustments | 0 | 399 | 1 | 400 |
| **Other transactions** | **122** | **2,463** | **1** | **2,586** |
| **Equity at 30 September 2006** | **47,170** | **301,166** | **(3,248)** | **345,088** |

The share capital of DKK 47,170,255 consists of 9,434,051 shares at DKK 5.

The Group holds 125,000 treasury shares as at 30 September 2006 (125,000 shares as at 30 September 2005).

There are no shares with special rights.

# CASH FLOW STATEMENT FOR 2005/06

| | | Group | | Parent | |
|---|---|---|---|---|---|
| **Amounts in DKK '000** | **Note** | **2005/06** | **2004/05** | **2005/06** | **2004/05** |
| Operating profit/loss (EBIT) | | (63,012) | (3,949) | (9,874) | (15,587) |
| *Reversal of items with no effects on cash flow* | | | | | |
| Depreciation, amortisation and impairment | | 14,692 | 10,214 | 6,131 | 6,333 |
| Other items with no effects on cash flow | 32 | 7,274 | (4,890) | 7,479 | (3,517) |
| *Working capital changes* | | | | | |
| Change in inventories | | (18,813) | (17,738) | 24 | (201) |
| Change in receivables | | 14,157 | (42,432) | (43,652) | (40,534) |
| Change in trade payables, etc | | 724 | 10,952 | (5,727) | 2,475 |
| **Cash flows from operating activities** | | **(44,978)** | **(47,843)** | **(45,619)** | **(51,031)** |
| Financial income received | 10 | 5,652 | 7,711 | 6,956 | 8,454 |
| Financial expenses paid | 11 | (7,107) | (3,682) | (6,072) | (4,149) |
| Income taxes paid | 12 | 225 | (3,862) | 225 | (3,854) |
| **Cash flows from operations** | | **(46,208)** | **(47,676)** | **(44,510)** | **(50,580)** |
| Acquisition of enterprises and activities | 38 | (7,884) | (4,500) | (12,112) | 0 |
| Acquisition of intangible assets | | 0 | (3,098) | 0 | (3,098) |
| Acquisition of tangible assets | | (12,300) | (3,410) | (2,935) | (2,928) |
| Sale of tangible assets | | 0 | 0 | 0 | 0 |
| Acquisition of other long-term assets | | (2,707) | (4,961) | (2,682) | (4,863) |
| Acquisition of short-term securities (over 3 months) | | (80,662) | (119,535) | (78,724) | (119,535) |
| Proceeds from sale of short-term securities (over 3 months) | | 137,387 | 163,136 | 137,387 | 163,136 |
| **Cash flows from investments** | | **33,834** | **27,632** | **40,934** | **32,712** |
| Proceeds from raising of long-term liabilities | | 0 | 15,335 | 0 | 13,335 |
| Instalment on and repayment of long-term liabilities | | (1,904) | (14,850) | (1,904) | (14,850) |
| Acquisition of treasury shares | | 0 | (7,394) | 0 | (7,394) |
| Proceeds from share issue | | 2,186 | 0 | 2,186 | 0 |
| Costs relating to share issue, net income | | 400 | 0 | 400 | 0 |
| **Cash flows from financing activities** | | **682** | **(6,909)** | **682** | **(8,909)** |
| **Increase/decrease in cash and cash equivalents** | | **(11,692)** | **(26,953)** | **(2,894)** | **(26,777)** |
| Cash and cash equivalents at 1 October, net | | 12,999 | 39,952 | 10,837 | 37,614 |
| Value adjustment of cash and cash equivalents | | 0 | 0 | 0 | 0 |
| **Cash and cash equivalents at 30 September** | 23 | **1,307** | **12,999** | **7,943** | **10,837** |

# CASH FLOW STATEMENT FOR 2005/06

| | | Group | | Parent | |
|---|---|---|---|---|---|
| **Amounts in DKK '000** | **Note** | **2005/06** | **2004/05** | **2005/06** | **2004/05** |
| Cash and cash equivalents at 30 September, net, is composed as follows: | | | | | |
| Cash at bank and in hand | | 21,177 | 15,373 | 13,677 | 13,211 |
| Bank debt | | (19,870) | (2,374) | (5,734) | (2,374) |
| **Cash and cash equivalents at 30 September, net** | | **1,307** | **12,999** | **7,943** | **10,837** |

# NOTES

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# NOTES

## 1. Accounting policies

**Basis of preparation**

The annual report for RTX Telecom A/S for 2005/06, which includes both the annual report for the Group and the Parent, is presented in accordance with the provisions of International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish disclosure requirements for listed companies.

Additional Danish disclosure requirements for annual reports are determined in IFRS' announcement issued in accordance with the Danish Financial Statements Act as well as by the Copenhagen Stock Exchange.

The annual report also complies with the International Financial Reporting Standards (IFRS) issued by IASB.

RTX Telecom has chosen to present the annual report in accordance with IFRS, both regarding the Group as well as the Parent.

The annual report is presented in Danish kroner (DKK), which is regarded as the primary currency in relation to the Group's activities and the functional currency of the Parent.

The annual report is presented based on historical costs, except items where IFRS require measurement at fair market value. Otherwise the accounting policies applied are as described below.

Figures in brackets indicate a negative amount or an amount which must be deducted or amounts with a negative sign.

**Changes in accounting policies due to transition to IFRS**

The annual report for 2005/06 is the first annual report presented under International Financial Reporting Standards (IFRS) as adopted by the EU. The applied accounting policies are altered in 2005/06 in accordance with the requirements of IFRS.

IFRS 1, First-Time Adoption of International Financial Reporting Standards, has been applied for the transition to IFRS. This Standard requires the opening balance sheet at 1 October 2004 and the comparative figures for 2004/05 to be prepared in accordance with the standards and interpretations applicable at 30 September 2006. The opening balance sheet at 1 October 2004 has been prepared as if these standards and interpretations had always been applied, except where the special transitional and commencement provisions in IFRS 1 described below apply.

# NOTES

## 1. Accounting policies (continued)

The transition to presentation of financial statements and consolidated financial statements under IFRS has required changes to the accounting policies applied by the Parent as well as by the Group in a number of areas as regards recognition and measurement:

- Business combinations and goodwill
- The Parent's measurement of investments in subsidiaries and associates
- Schemes with share-based remuneration established after 7 November 2002 with vesting date after 1 January 2005 are recognised in the profit and loss account from time of issue till final vesting. The value of warrants and share options is determined in accordance with accepted valuation models.

The general rule of accounting for changes in accounting policies is that, in the year of changing policies, the annual report is to be presented retrospectively as if the enterprise had always applied the new accounting policies, including restatement of comparative figures. Upon transition to financial statement presentation under IFRS, however, IFRS 1 provides a number of both mandatory and optional exemptions to this general rule.

RTX Telecom has applied the following optional exemptions of IFRS 1:

- Business combinations executed before 1 October 2004 have not been restated according to IFRS regulations.
- Equity-based share payment schemes established before 7 November 2002 or finally earned before 1 January 2005 have not been recognised.

# NOTES

## 1. Accounting policies (continued)

The effect in terms of value of the changes in accounting policies, which follow from the transition to IFRS financial statement presentation, can be specified as follows:

| | Group | | |
|---|---|---|---|
| | Equity at 1 Oct. 2004 DKK'000 | Equity at 30 Sept. 2005 DKK'000 | Profit and loss account 2004/05 DKK'000 |
| Amounts in accordance with the annual report for 2004/05 presented under previous accounting policies | 374,868 | 365,623 | (1,900) |
| *Effect of transition to financial reporting under IFRS:* | | | |
| Cessation of amortisation of goodwill | 0 | 1,160 | 1,160 |
| The effect of the change on deferred tax assets | 0 | (325) | (325) |
| **Amounts calculated in accordance with IFRS** | **374,868** | **366,458** | **(1,065)** |

| | Parent | | |
|---|---|---|---|
| | Equity at 1 Oct. 2004 DKK'000 | Equity at 30 Sept. 2005 DKK'000 | Profit and loss account 2004/05 DKK'000 |
| Amounts in accordance with the annual report for 2004/05 presented under previous accounting policies | 374,868 | 365,623 | (1,900) |
| *Effect of transition to financial reporting under IFRS:* | | | |
| Measurement of investments in subsidiaries at cost | 29,573 | 29,573 | 0 |
| Impairment of investments in subsidiaries to recoverable amount | (28,963) | (28,963) | 0 |
| Reversal of profit/loss before tax in subsidiaries | 0 | (10,202) | (10,202) |
| The effect of the change on deferred tax assets | 0 | 3,776 | 3,776 |
| Other adjustments | 0 | (49) | 0 |
| **Amounts calculated in accordance with IFRS** | **375,478** | **359,758** | **(8,326)** |

# NOTES

## 1. Accounting policies (continued)

Apart from changes concerning recognition and measurement, the presentation and classification of items have been altered for the following items as a result of the transition to financial reporting under IFRS:

- Deferred tax assets divided and recognised as deferred tax assets under long-term assets and as deferred tax liabilities under long-term liabilities, respectively.
- Contract development projects in progress which are divided and recognised in the balance sheet under short-term assets and short-term liabilities, respectively.
- Provisions distributed on short-term and long-term liabilities.
- Short-term current asset investments classified only as part of cash and cash equivalents in the cash flow statement if their remaining duration upon acquisition is less than three months.

For further description of the changes in accounting policies and financial report format as well as the effect of the transition to IFRS we refer to note 39.

Besides the provisions for recognition and measurement, the transition to IFRS has, within a number of areas, resulted in more disclosure requirements than according to the Danish Financial Statement Act and the Danish Accounting Standards. Moreover, editorial changes have been made in the text regarding a number of items as well as clarifications regarding the description which is not characterised as a change in accounting policies.

Comparative figures in the key figures outline for the Group for 2004/05 have been restated to the changed accounting policies in accordance with the IFRS 1 requirements. The comparative figures for the years 2001/02, 2002/03 and 2003/04 have not been restated to the changed accounting policies.

**Standards and interpretations that have not become effective**

Altered standards and interpretations which were issued though had not become effective at the time this annual report was made public are not incorporated in this annual report.

# NOTES

## 1. Accounting policies (continued)

IAS 39 "Financial instruments: recognition and measurement" became effective on 1 January 2006. According to this standard financial assets (including bank deposits, receivables, bonds, etc) as well as financial liabilities (including mortgage, bank debt, trade payables, etc) are as a main rule measured at fair market value upon initial recognition. Subsequently, financial assets must be measured at fair market value, though if fair market value cannot be measured reliably it must be measured at amortised cost or cost. Regarding financial liabilities these must as a main rule subsequently be measured at amortised cost. In Management's opinion the commencement of IAS 39 will have no significant effect for measurement of the Group's financial assets and liabilities and therefore no recognition of the consequences is performed in the annual report.

In Management's opinion the future implementation of other standards and interpretations which have not become effective can be performed with no significant influence on the annual report.

**Material accounting estimates, assumptions and uncertainties**

Several financial statement items cannot be measured with certainty but only be estimated. Such estimates comprise assessments made on the basis of the latest information available at the time of the financial reporting.

In relation to the practical application of the described accounting policy, Management has performed normal accounting assessments within the valuation of long-term assets, inventories, receivables and liabilities.

**Consolidated financial statements**

The consolidated financial statements include RTX Telecom A/S (Parent) and the enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence.

RTX Telecom A/S together with its subsidiaries is referred to as the Group.

*Basis of consolidation*

The consolidated financial statements are prepared on the basis of the financial statements of RTX Telecom A/S and its subsidiaries. The consolidated financial statements are prepared by combining financial statement items of a uniform nature. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

On consolidation intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated.

# NOTES

## 1. Accounting policies (continued)

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements. Minority interests' pro rata share of profit/loss forms part of the Group's profit or loss for the year and is a separate element of the Group's equity.

*Business combinations*

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquiring or establishing such enterprises. Time of acquisition is the date on which control of the enterprise is actually acquired. Divested or wound-up enterprises are recognised in the consolidated profit and loss account up to the time of their divestment or winding-up. Time of divestment is the date on which control of the enterprise actually passes to a third party. Comparative figures are not restated for newly acquired or divested undertakings.

The purchase method is applied in the acquisition of new enterprises, under which identifiable assets, liabilities and contingent liabilities of these enterprises are measured at fair market value at the acquisition date. Long-term assets acquired for the purpose of resale, however, are measured at fair market value less anticipated selling costs. Restructuring costs are only recognised in the pre-acquisition balance sheet if they, at the time of acquisition, constitute a liability to the assuming company. Allowance is made for the tax effect of the restatements.

The cost of an enterprise consists of the fair market value of the consideration paid plus costs which are directly attributable to the acquisition of enterprise. If the final assessment of the consideration is conditioned upon one or several future events, these adjustments are only included in cost if the relevant event is probable and the effect on cost can be calculated reliably.

Positive differences (goodwill) between cost of the enterprise acquired and the fair market value of the assets, liabilities and contingent liabilities acquired are recognised as an asset under intangible assets and tested at least once a year in relation to impairment. If the asset's carrying amount is higher than its recoverable amount, impairment is performed to this lower recoverable amount.

For negative differences (negative goodwill), the calculated fair market values and the calculated cost of the enterprise are reassessed. If the fair market value of the assets, liabilities and contingent liabilities acquired still exceeds cost after the reassessment, the difference is recognised as income in the profit and loss account.

# NOTES

## 1. Accounting policies (continued)

*Profits or losses from divestment of subsidiaries*

Profits or losses from divestment or winding-up of subsidiaries are calculated as the difference between selling price or settlement price and carrying amount of the net assets at the time of divestment or winding-up, inclusive of goodwill, accumulated exchange rate adjustments taken directly to equity, and estimated divestment or winding-up expenses. The selling price is measured at fair market value of the consideration received.

**Foreign currency translation**

On initial recognition, transactions in currencies different from the Group's functional currency are translated applying the transaction date exchange rate.

Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date or the rate at the balance sheet date are recognised in the profit and loss account as financial income or financial expenses. Tangible assets, intangible assets, inventories and other non-monetary assets purchased in foreign currencies and measured on the basis of historical costs are translated applying the transaction date exchange rate. Non-monetary items that are restated at fair market value are translated using the exchange rate at the date of restatement.

On the recognition in the consolidated financial statements of enterprises, which present their financial statements in a functional currency different from DKK, the profit and loss accounts are translated at the average exchange rates on a monthly basis unless such rates vary significantly from the actual exchange rates at the transaction dates. In the latter case the actual exchange rates are applied. Balance sheet items are translated using the exchange rates at the balance sheet date. Goodwill is considered as belonging to the relevant entity acquired and is translated using the exchange rate at the balance sheet date.

Exchange differences arising out of the translation of foreign enterprises' equity at the beginning of the year using the balance sheet date exchange rates as well as upon the translation of profit and loss accounts from average rates to the exchange rates at the balance sheet date are recognised directly in equity. Similarly, exchange rate differences arising out of changes made directly in the foreign enterprise's equity are also taken directly to equity.

Exchange rate adjustment of receivables from or payables to subsidiaries, which is considered part of the Parent's total investment in the subsidiary in question, is recognised directly in equity in the consolidated financial statements.

# NOTES

## 1. Accounting policies (continued)

Upon recognition in the consolidated financial statements of foreign subsidiaries, which present their financial statements in a functional currency different from DKK, monetary assets and monetary liabilities are translated at exchange on the balance sheet date. Non-monetary assets and liabilities measured based on historical costs are translated at the exchange rate on the transaction date. Non-monetary items measured at fair market value are translated at the exchange rate at the time of the most recent adjustment of fair market value.

The items of the profit and loss account are translated at the average exchange rates of the months, however, items deriving from non-monetary assets and liabilities are translated using the historical rates applicable to the relevant non-monetary assets and liabilities.

**Derivative financial instruments**

On initial recognition, derivative financial instruments are measured at fair market value normally corresponding to remuneration paid or received. Directly attributable expenses related to the purchase or issue of a financial instrument are added to derivative financial instruments for which subsequent fair market value adjustments are taken to equity.

After initial recognition, derivative financial instruments are measured at fair market value at the balance sheet date.

Changes in the fair market value of derivative financial instruments that qualify for hedge accounting and comply with the requirements for hedging of the fair market value of a recognised asset or a recognised liability are recorded in the profit and loss account together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair market value of derivative financial instruments classified as and complying with the requirements for effectively hedging future cash flows are recognised directly in equity. When the hedged cash flows are realised, the accumulated changes are recognised as part of cost of the relevant transactions.

Changes in fair market value of derivative financial instruments used for hedging of net investments in foreign subsidiaries are recognised directly in equity in the consolidated financial statements to the extent the hedging is effective.

If the relevant foreign enterprise is divested, the accumulated changes in value are taken to the profit and loss account.

# NOTES

## 1. Accounting policies (continued)

For derivative financial instruments that do not qualify as hedging instruments, changes in fair market value are recognised currently in the profit and loss account as financial income or financial expenses.

**Share-based incentive schemes**

Share-based incentive schemes in the form of share options and warrants where the employees only may chose to buy and subscribe for shares in the Parent, respectively, at an agreed rate (equity-settled share-based payment arrangement), the fair market value of the rights are measured at the time of issue and are recognised in the profit and loss account under staff costs for the period during which the employees achieve final right to the share options and the warrants, respectively. The set-off entry is recognised directly in equity.

Share-based incentive schemes, where the employees may choose between acquiring the shares at an agreed price or receiving cash payment of the difference between the agreed price and the actual share price, are measured at fair market value at the time of issue and recognised in the profit and loss account under staff costs during the period where final right is obtained to acquiring the shares or receiving cash payment, respectively. Subsequently, the incentive schemes are measured at every balance sheet date as well as upon final payment and changes in the fair market value of the schemes are recognised in the profit and loss account under staff costs proportionately relative to the past period during which the employees have achieved final right to acquire the shares or receive cash payment, respectively. The set-off entry is recognised under liabilities.

On initial recognition of the share options and warrants an estimate is made regarding the number of rights for which the employees are expected to acquire final right. Subsequently, adjustments are made for changes to this estimate whereby final recognition of the cost corresponds to the actual number of acquired rights to share options and warrants.

The fair market value of the share options and the warrants is computed by using the Black & Scholes' model for valuation of European call options with the parameters included in note 34.

**Income taxes**

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the profit and loss account by the portion attributable to the profit or loss for the year and classified directly as equity by the portion attributable to entries directly in equity. Exchange rate adjustments of deferred tax are recognised as part of the year's adjustments of deferred tax.

# NOTES

## 1. Accounting policies (continued)

The current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

When calculating the current tax for the year, the tax rates in effect at the balance sheet date are used.

Deferred tax is recognised applying the liability method on all temporary differences between the carrying amount and tax-based value of assets and liabilities, apart from deferred tax on temporary differences arisen either upon initial recognition of goodwill or upon initial recognition of a transaction which is not a business combination and where the temporary difference is noted at the time of initial recognition neither affects the accounting result nor the taxable income.

Deferred tax is recognised on all temporary differences related to investments in subsidiaries and associates unless the Parent is able to control when deferred tax is realised and it is probable that deferred tax will not create current tax in a foreseeable future.

The deferred tax is calculated based on the planned use of each asset or the planned winding up of each liability, respectively.

Deferred tax is measured by using the tax rates and tax rules in the respective countries which - based on adopted or in reality adopted regulations at the balance sheet date - are expected to apply when deferred tax is expected to created current tax. Changes in deferred tax resulting from changed tax rates or tax rules are recognised in the profit and loss account.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets for set-off in future positive taxable income. On each balance sheet date, it is reassessed whether sufficient taxable income is likely to occur in the future for the deferred tax asset to be used.

The Parent is jointly taxed with all of its Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed Danish enterprises proportionally to their taxable income, i.e. full allocation with a refund concerning tax losses.

# NOTES

## 1. Accounting policies (continued)

### Profit and loss account

*Net turnover*

Net turnover from the sale of manufactured goods and goods for resale is recognised in the profit and loss account when delivery is made and risk has passed to the buyer.

Contract development projects in progress and delivery of services are recognised as net turnover in line with performance of the project or when the agreed services are delivered whereby net turnover corresponds to the sales value of the work performed during the financial year (percentage of completion method), see below.

Net turnover is measured at fair market value of the consideration received or receivable. If an interest-free credit has been arranged for payment of the consideration receivable which is longer than the usual credit period, the fair market value of the consideration is determined by discounting future payments receivable. The difference between fair market value and nominal value of the consideration is recognised as financial income in the profit and loss account on application of the effective interest method.

Net turnover is calculated net of VAT, duties, etc. collected on behalf of a third party.

*Contract development projects for a third party*

If the outcome of a contract development project for a third party can be estimated reliably, net turnover and cost of sales are recognised in the profit and loss account based on the contract's stage of completion at the balance sheet date (percentage of completion method).

When the outcome of a contract development project for a third party cannot be estimated with sufficient reliability, net turnover is recognised to the incurred project costs, to the extent it is probable that these costs will be recovered.

Costs relating to sales work and conclusion of contracts as well as financing costs are recognised in the profit and loss account as incurred.

*Royalty*

Income from royalty is often conditioned on future events. Royalty income particularly depends on the customer's sale of products containing technology developed by RTX Telecom, and therefore royalty is not recognised in the profit and loss account until these future events have occurred.

# NOTES

## 1. Accounting policies (continued)

*Cost of sales, etc*

Cost of sales, etc comprises raw materials, consumables, cost of sales, freight, customs and other direct external expenses incurred to achieve the net turnover.

*Other external expenses*

Other external expenses comprise costs for premises, marketing and sale, administration, bad debts, etc.

Other external expenses also includes costs for development projects at own expense which do not meet the criteria for recognition in the balance sheet. In addition, provisions for loss on contract development projects in progress for a third party are included.

*Staff costs*

Staff costs comprise salaries and wages, share-based remuneration as well as social security costs, pension contributions, etc for the Company's management and staff.

*Financial income and expenses*

These items comprise interest income and interest expenses, the interest portion of finance lease payments, realised and unrealised capital gains and losses on securities, payables and transactions in foreign currencies, mortgage amortisation premium/allowance on mortgage debt, etc as well as tax surcharge and repayment under the Danish Tax Prepayment Scheme.

Interest income and interest expenses are accrued based on the principal sum and the effective interest rate.

Dividends on investments in other securities and equity investments are recognised once final right to the dividend is obtained, which is typically at the time of the general meeting's approval of the distribution from the company in question.

**Balance sheet**

*Completed development projects at own expense*

Development projects on clearly defined and identifiable products and processes are recognised as intangible assets to the extent the product or the process is likely to generate future financial benefits to the Group, and the development costs related to each asset can be measured reliably. Other development costs are recognised as costs in the profit and loss account as incurred.

# NOTES

## 1. Accounting policies (continued)

On initial recognition, development costs are measured at cost. The cost of development projects comprises costs, including wages, amortisation and depreciation directly attributable to the development projects, and which are necessary to complete the project, calculated from the time at which the development project meets the criteria for recognition as an asset for the first time.

Completed development projects are amortised on a straight-line basis using the estimated useful lives of the assets. The period of amortisation is usually 3-5 years. For development projects, protected by intellectual property rights, the maximum period of amortisation is the remaining duration of the relevant rights.

Development projects are written down to any lower recoverable amount. Development projects in progress recognised in the balance sheet are tested at least once a year for impairment.

The Group's services are primarily sold on markets with frequent changes or upgrading of technologies. Consequently, the Group's commercial sales conditions may change at short notice, and in particular cases, the market may be lost due to a specific technological development. Therefore, it is expected that only in special cases will incurred costs relating to the Group's own development projects meet the requirements for capitalisation.

*Patents and licenses*

Acquired intellectual property rights in the form of patents and licences are measured at cost less accumulated amortisation. Patents are amortised over the remaining duration, and licences are amortised over the term of the agreement, but no more than 20 years. If the actual useful life is shorter than remaining life and term of the agreement, respectively, amortisation is performed over the shorter useful life.

Acquired intellectual property rights are written down to any lower recoverable amount.

Intangible assets with indefinable useful lives are not amortised but tested at least once a year for impairment. If the assets' carrying amounts exceed their recoverable amounts, impairment is made to this lower value.

# NOTES

## 1. Accounting policies (continued)

*Goodwill*

On initial recognition, goodwill is recognised and measured as the difference between cost of the enterprise acquired and the fair market value of the assets, liabilities and contingent liabilities acquired, see description under consolidated financial statements.

When goodwill is recognised, the goodwill amount is distributed on those of the Group's activities generating separate payments (cash-generating units). Determination of cash generating units follows the management structure as well as internal finance management and reporting of the Group.

Goodwill is not amortised, but tested at least once a year for impairment. To the extent that the recoverable amount for each cash-generating unit is less than the carrying amounts of the tangible assets and intangible assets, including goodwill related to the cash-generating unit, impairment is made of the assets in question.

*Tangible assets*

Land and buildings, plant and machinery, other fixtures and fittings, tools and equipment as well as leasehold improvements are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the acquisition price, costs directly attributable to the acquisition, and preparation costs of the asset until the time when it is ready to be put into operation. For own-manufactured assets, cost comprises costs directly attributable to the manufacture of the asset, including materials, components, subsuppliers and wages. For assets held under finance leases, cost is the lower of the asset's fair market value and present value of future lease payments.

Interest expenses on loans for financing the manufacture of tangible assets are included in cost if they relate to the manufacturing period. Other borrowing costs are recognised in the profit and loss account.

If acquisition or use of the asset commits the Group to incur costs of demolition or reestablishment of the asset, the estimated related costs are recognised as provisions or cost of the relevant asset, respectively. If the liability occurs in relation to production of inventories, the liability is recognised as part of the cost of the products in question, see below.

# NOTES

## 1. Accounting policies (continued)

The basis of depreciation is cost less estimated residual value after the end of useful life.

Cost of a total asset is divided into small parts which are depreciated separately if the useful lives are different.

Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

| | |
|---|---|
| Buildings | 25 to 50 years |
| Plant and machinery | 4 to 10 years |
| Other fixtures and fittings, tools and equipment, including computer equipment | 3 to 7 years |
| Leasehold improvements | 5 years |

Depreciation methods, useful lives and residual value are reassessed annually.

Tangible assets are written down to the lower of recoverable amount and carrying amount.

*Investments in subsidiaries in the Parent's annual report*
Investments in subsidiaries are measured at cost.

If cost exceeds the recoverable amount of the investments, impairment is performed to such lower value.

Impairment is also performed on cost if more dividends are distributed than accumulated profit in the enterprise since the Parent's acquisition.

*Impairment of tangible assets, intangible assets and investments in subsidiaries*
The carrying amounts of tangible assets and intangible assets with determinable useful lives as well as the Parent's investments in subsidiaries are tested on the balance sheet date to determine whether there are indications of impairment. If there are indications of an impairment, the recoverable amount of the asset is estimated to establish the need for impairment losses as well as the extent of the impairment losses, if any. For development projects in progress at the Group's own account, intangible assets with indeterminable useful lives and goodwill, the recoverable amount is estimated annually, irrespective of whether there are indications of impairment.

# NOTES

## 1. Accounting policies (continued)

If the individual asset does not generate cash independently of other assets, the recoverable amount is estimated for the smallest cash-generating unit in which the assets is included.

The recoverable amount is calculated as the highest value of the asset's or the cash-generating unit's fair market value less selling costs and net present value. On calculation of net present value, the estimated future cash flows are discounted to present value by using a discount rate reflecting actual market assessments of the timing value of money as well as the particular risks related to the asset or the cash-generating unit, and for which no adjustment has been made in the estimated future cash flows.

If the recoverable amount of the asset or the cash-generating unit is estimated to be lower than carrying amount, carrying amount is written down to recoverable amount. For cash-generating units, the write-down is allocated so that goodwill is impaired first, and secondly any remaining impairment need is allocated on the other assets in the unit as each asset, however, is not impaired to a lower value than the fair market value of the asset less estimated selling costs.

Impairment losses are recognised in the profit and loss account. In case of any subsequent reversals of impairment losses resulting from change in assumptions of the calculated recoverable amount, the carrying amount of the asset or the cash-generating unit is increased to the adjusted estimate of the recoverable amount, however not exceeding the carrying amount of the asset or the cash-generating unit if the impairment loss had not been made. Impairment of goodwill is not reversed.

*Other investments*

Other investments are classified as "Financial assets available for sale" and, on initial recognition, these are measured at fair market value corresponding to cost on the trading day plus any transaction costs. Listed shares and bonds are subsequently measured at fair market values on the balance sheet date (listed price). Other investments are measured at an approximate computed fair market value or at cost if an approximate fair market value cannot be computed reliably.

The fair market value adjustments of financial assets available for sale are recognised directly on equity until the time of sale of the assets. This does, however, not apply to adjustments as a result of loss upon permanent impairment and exchange rate adjustments which are both recognised in the profit and loss account under financial items. Upon sale of the assets, accumulated profits and losses recognised on equity are transferred to the profit and loss account. Interest on and dividends from financial assets available for sale are recognised in the profit and loss account under financial income.

# NOTES

## 1. Accounting policies (continued)

*Inventories*

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

Cost of goods for resale, raw materials and consumables consist of purchase price plus landing costs. Cost of manufactured goods and work in progress comprise costs for raw materials, consumables and direct wages for production staff as well as distributed fixed and variable indirect production costs incurred to bring inventories to their current condition and location. This includes liabilities occurred for demolition or establishment of tangible assets if these liabilities have arisen in relation to production of goods.

Variable indirect production costs comprise indirect materials and labour costs allocated based on pre-calculations of the goods actually manufactured. Fixed indirect production costs comprise costs of maintenance of and depreciation on machinery, factory buildings and equipment applied for the manufacturing process as well as costs of factory administration and management. Fixed production costs are distributed based on the normal capacity of the production plant.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

*Receivables*

On initial recognition, receivables are measured at fair market value and subsequently at amortised cost usually equalling nominal value less provisions for bad debts.

*Contract development projects in progress for a third party*

When the outcome of a contract development project is deemed reliable, the development project is measured at selling price of the work performed at the balance sheet date (percentage-of-completion) less on account invoicing and write-down for estimated loss.

The selling price is measured based on the stage of completion on the balance sheet date and the total estimated income from each development project.

Usually, the stage of completion for each project is determined as the ratio between actual and total budgeted consumption of resources.

# NOTES

## 1. Accounting policies (continued)

If the outcome of a development project cannot be estimated reliably, the development project is measured at costs incurred to the extent these can be recovered.

When it is probable that total project costs will exceed total project income for a development project, the expected loss is immediately recognised as costs.

The individual development project in progress is recognised in the balance sheet under receivables or liabilities, depending on whether net value is a receivable or a liability.

Costs relating to sales work and conclusion of contracts on development projects as well as financing costs are recognised in the profit and loss account as incurred.

For further description see above under net turnover.

*Prepayments and accrued expenses*

Prepayments and accrued expenses recognised under assets comprise incurred costs relating to subsequent financial years. Prepayments and accrued expenses are measured at cost.

*Short-term current asset investments*

The Group's portfolio of current asset investments recognised under short-term assets primarily comprise listed bonds.

On initial recognition, the portfolio of listed bonds is classified as "Financial assets measured at fair market value over the profit and loss account". These investments are not traded actively apart from ongoing replacement of current asset investments upon termination or in relation to management of the portfolio.

On initial recognition the current asset investments are measured at fair market value corresponding to cost on the trading date. Subsequently, current asset investments are measured at fair market value at the balance sheet date corresponding to the listed price. Realised and unrealised capital gains and losses are recognised in the profit and loss account as financial items.

# NOTES

## 1. Accounting policies (continued)

*Treasury shares*

Acquisition and selling prices as well as dividends on treasury shares are classified directly as equity under retained earnings.

*Dividends*

Dividends are recognised as a liability at the time of adoption at the general meeting.

*Pension liabilities, etc*

The Group has made pension schemes and similar contracts with a significant number of its employees.

Upon defined contribution schemes, the Group continuously pays fixed contributions to independent pension providers, etc which hereby assume the pension liabilities. The contributions are recognised in the profit and loss account during the period in which the employees have performed the work entitling the pension contribution. Payments due are recognised in the balance sheet as a liability.

The Group has not entered into defined benefit pension plans.

*Provisions*

Provisions are recognised when the Group has a legal or constructive obligation as a result of events in this or previous financial years and repayment of the liability is likely to result in drain on the Group's financial resources.

Provisions are measured as the best estimate of costs necessary to settle the obligation on the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their present value.

Upon sale of goods with right of return, provisions are made for hedging profit on the goods which are expected to be returned as well as any expenses related to the returns.

Guarantee commitments comprise commitments to remedy defects and deficiencies on goods sold within the guarantee period. The liabilities are computed based on historical experiences.

When total costs are likely to exceed total income from a contract development project for a third party, provision is made for the total loss estimated to be the outcome from the relevant project.

# NOTES

## 1. Accounting policies (continued)

In connection with planned restructurings of the Group, provisions are only made for obligations relating to restructurings that were decided and commenced at the balance sheet date according to a specific plan, and where the parties involved have been informed about the overall plan.

*Mortgage debt*

At the time of borrowing, mortgage debt is measured at cost which corresponds to the proceeds received after deduction of transaction costs incurred. Subsequently, mortgage debt is measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the amount to be repaid is recognised in the profit and loss account as a financial expense over the term of the loan applying the effective interest method.

*Lease commitments*

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities and, at the time of inception of the lease, measured at the lower of the lease asset's fair market value and the present value of the future minimum lease payments.

Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the minimum lease payments is recognised in the profit and loss account as a financial expense over the term of the leases.

Lease payments on operating leases are recognised on a straight-line basis in the profit and loss account over the term of the lease.

*Other financial liabilities*

On initial recognition, other financial liabilities, including bank loans and trade payables, are measured at fair market value corresponding to received proceed after deduction of any incurred transaction costs. Subsequently, these liabilities are measured at amortised cost applying the effective interest method to the effect that the difference between proceeds and nominal amount is recognised in the profit and loss account as a financial expense over the term of the loan.

*Deferred income*

Deferred income comprises received income for recognition in subsequent financial years. Deferred income is measured at cost.

# NOTES

## 1. Accounting policies (continued)

**Cash flow statement**

The cash flow statement is presented using the indirect method and shows cash flows from operations, investments and financing activities as well as the cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from acquisition and divestment of enterprises are shown separately under cash flows from investing activities. Cash flows from acquired enterprises are recognised in the cash flow statement from the time of their acquisition, and cash flows from divested enterprises are recognised up to the time of sale.

Cash flows from operating activities are calculated as the operating profit adjusted for non-cash operating items and changes in working capital less the income tax paid in the financial year which is attributable to the operating activities.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises and financial assets as well as acquisition, development, improvement and sale of intangible assets and tangible assets. Furthermore, cash flows from finance lease assets in the form of lease payments made are recognised.

Cash flows from financing activities comprise changes in the Parent’s share capital and related costs as well as the raising and repayment of loans, instalments on interest-bearing debt, purchase and sale of treasury shares and payment of dividends.

Cash flows in other currencies than the Group's functional currency are recognised in the cash flow statement by using the average exchange rates for the months, unless they deviate significantly from the actual exchange rates at the transaction dates. In the latter case, the actual exchange rates of each day are applied.

Cash and cash equivalents comprise cash and short-term current asset investments with insignificant price risk less overdraft facilities in bank included as an integral part of the Group's cash management.

**Segment information**

The entire basis for the RTX Telecom Group's activities is an overall business segment, i.e. development, production and sale of products, equipment and services within wireless communication and other telecom products. Segment information on the primary segmentation therefore corresponds to information in the consolidated financial statements.

# NOTES

## 1. Accounting policies (continued)

The Group's secondary segmentation concerns geographical areas. The segment information complies with the Group's risks, accounting policies and internal financial management reports.

Segment information comprises items directly attributable to each segment and items which can be allocated into each segment at a reliable basis.

### Ratio definitions and calculation formulas

The ratios have been calculated in accordance with "Recommendations & Financial Ratios 2005" issued by the Danish Society of Financial Analysts, unless otherwise indicated.

| | |
|---|---|
| ***Operating profit/loss (EBIT)*** | Profit/loss before financial income and expenses |
| ***Profit/loss from ordinary activities after tax*** | Profit/loss for the year adjusted for extraordinary items after tax and minority interests |
| ***Growth in net turnover*** [1] | (Net turnover in year n - net turnover in year n - 1) * 100 / Net turnover in year n - 1 |
| ***Growth in operating profit/loss*** [1] | (Operating profit/loss (EBIT) in year n - operating profit/loss in year n - 1) * 100 / operating profit/loss in year n - 1 |
| ***Profit margin*** | Operating profit/loss * 100 / Net turnover |
| ***Return on invested capital (ROIC including goodwill)*** | Operating profit/loss before amortisation (EBITA) * 100 / Average invested capital including goodwill |
| ***Return on equity*** | Profit/loss from ordinary activities after tax and minority interests * 100 / Average equity |
| ***Equity ratio*** [1] | Equity at year-end * 100 / Total equity and liabilities at year-end |
| ***Earnings per share (EPS basic)*** | Profit/loss from ordinary activities after tax and minority interests / Average number of shares in circulation each at a nominal value of DKK 5 |
| ***Diluted earnings per share (EPS diluted)*** | Profit/loss from ordinary activities after tax and minority interests / Average number of diluted shares each at a nominal value of DKK 5 |
| ***Cash flow from operations per share*** [1] | Cash flow from operations / Average number of shares in circulation each at a nominal value of DKK 5 |
| ***Equity value per share*** [1] | Equity excluding minority interests at year-end / Number of shares in circulation at year-end |
| ***Dividends per share*** | Total dividends paid / Average number of issued shares each at a nominal value of DKK 5 |

1) Not defined by the Danish Association of Financial Analysts.

Computation of earnings per share and diluted earnings per share is specified in note 13.

# NOTES

## 2. Material accounting estimates, assumptions and uncertainties

Several financial statement items cannot be measured with certainty but only be estimated. Such estimates comprise assessments made on the basis of the latest information available at the time of the financial reporting. It may be necessary to change previous estimates due to changes in the matters on which the estimate was based or due to additional information, further experience or subsequent events.

**Material accounting estimates**

In relation to the practical application of the accounting policies described, Management has made the following material accounting estimates and assessments which may have a significant influence of the annual report's assets and liabilities at the balance sheet date. Management bases its estimates on historical experiences as well as a number of assumptions which are assessed as being reasonable under the given circumstances. The result hereof forms the basis for the reported accounting values of assets and liabilities as well as the reported income and expenses which are not directly disclosed in other documentation. The actually realised results may deviate from these estimates recognised at the balance sheet date. Management has performed the following material accounting estimates which have had significant influence on the annual report.

*Deferred tax assets*

RTX Telecom recognises deferred tax assets if it is probable that sufficient taxable income exists in future to use the temporary differences between tax and accounting values of the assets and liabilities and unused tax loss carryforwards. Management has performed an estimate of expected future taxable income in a foreseeable number of years in the jointly taxed companies within the Group. This estimate is included in the assessment as regards whether the deferred tax assets may be recognised on the balance sheet date. As at 30 September 2006 the accounting value of deferred tax assets is recognised with DKK 16,678k, net.

*Measurement of investments in subsidiaries in the Parent's balance sheet*

Investments in subsidiaries are measured at cost. If cost exceeds the recoverable amount, it is written down to such lower amount. Accounting values of investments in subsidiaries are reviewed on the balance sheet date in order to determine whether there are indications of impairment. Management has performed an estimate of the expected development in the subsidiaries within a foreseeable number of years. Management's estimate is for instance based on adopted strategies, expected activities and plans as well as existing budgets and estimates. This estimate is included when assessing at which value investments in subsidiaries could be recognised on the balance sheet date. As at 30 September 2006 the accounting value of investments in subsidiaries is recognised with DKK 32,882k.

# NOTES

| Amounts in DKK '000 | Net turnover 2005/06 | Net turnover 2004/05 | Acquisition of intangible assets and tangible assets 2005/06 | Acquisition of intangible assets and tangible assets 2004/05 | Assets 2005/06 | Assets 2004/05 |
|---|---|---|---|---|---|---|
| **3. Segment information** | | | | | | |
| **Group** | | | | | | |
| Denmark | 38,927 | 93,442 | 2,774 | 9,403 | 255,368 | 350,960 |
| Other European countries | 158,424 | 131,487 | 177 | 3,098 | 46,848 | 29,963 |
| Asia and Australia | 32,802 | 30,536 | 17,231 | 374 | 50,718 | 10,637 |
| North America | 54,954 | 61,761 | 2 | 86 | 55,941 | 60,802 |
| **Total** | **285,107** | **317,226** | **20,184** | **12,961** | **408,875** | **452,362** |
| **Parent** | | | | | | |
| Denmark | 89,590 | 64,945 | 2,759 | 2,928 | 322,508 | 350,963 |
| Other European countries | 42,610 | 42,706 | 177 | 3,098 | 9,773 | 12,271 |
| Asia and Australia | 5,498 | 13,503 | 12,112 | 0 | 27,173 | 3,401 |
| North America | 42,409 | 56,074 | 0 | 0 | 46,434 | 56,623 |
| **Total** | **180,107** | **177,228** | **15,048** | **6,026** | **405,888** | **423,258** |

Net turnover is broken down by geographical areas according to the customers' geographical location.

Acquisition of intangible assets and tangible assets as well as book value of assets are broken down by the physical location at the balance sheet date.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **4. Net turnover** | | | | |
| **Net turnover by technologies, etc** | | | | |
| Cordless inclusive W-LAN | 246,786 | 250,174 | 147,395 | 139,785 |
| Cellular | 8,778 | 21,303 | 3,866 | 8,767 |
| Bluetooth | 27,644 | 44,570 | 22,669 | 22,650 |
| Other income | 1,899 | 1,179 | 6,177 | 6,026 |
| **Total** | **285,107** | **317,226** | **180,107** | **177,228** |

**Net turnover of the Group by types of income**

| Amounts in DKK '000 | 2005/06 | Share | 2004/05 | Share |
|---|---|---|---|---|
| Development projects | 46,898 | 16% | 75,572 | 24% |
| Royalty | 25,762 | 9% | 20,958 | 7% |
| Sale of own products, etc | 212,447 | 75% | 220,696 | 69% |
| **Total net turnover of the Group** | **285,107** | **100%** | **317,226** | **100%** |

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **5. Cost of sales, etc** | | | | |
| Cost of sales | 117,987 | 132,589 | 38,383 | 46,617 |
| Write-down of inventories | 10,439 | 1,095 | 108 | 61 |
| Reversed write-downs of inventories | (1,095) | 0 | (61) | 0 |
| Other unit costs | 5,431 | 4,151 | 11 | 22 |
| **Total** | **132,762** | **137,835** | **38,441** | **46,700** |

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **6. Staff costs** | | | | |
| Supervisory Board members' remuneration | 895 | 821 | 895 | 821 |
| Wages and salaries | 120,602 | 110,163 | 82,947 | 82,967 |
| Defined contribution pension plans | 13,986 | 11,049 | 11,736 | 9,858 |
| Other social security costs | 1,271 | 1,193 | 952 | 942 |
| Other staff costs | 1,965 | 1,451 | 940 | 1,101 |
| Share-based remuneration, see note 34 | 601 | 0 | 601 | 0 |
| Public grants related to staff costs | (1,014) | (725) | (890) | (648) |
| **Total** | **138,306** | **123,952** | **97,181** | **95,041** |

| | | | | |
|---|---|---|---|---|
| Of this remuneration for the Parent's management amount to: | | | | |
| *Supervisory Board* | | | | |
| Supervisory Board members' remuneration | 895 | 821 | 895 | 821 |
| Share-based remuneration | 22 | 0 | 22 | 0 |
| *Executive Board* | | | | |
| Salaries | 2,002 | 1,644 | 2,002 | 1,644 |
| Pension | 17 | 0 | 17 | 0 |
| Share-based remuneration | 7 | 0 | 7 | 0 |
| **Total** | **2,943** | **2,465** | **2,943** | **2,465** |
| Share options for the period granted to the Parent's management: | | | | |
| Supervisory Board, number | 0 | 15,000 | 0 | 15,000 |
| Executive Board, number | 25,000 | 0 | 25,000 | 0 |
| | **25,000** | **15,000** | **25,000** | **15,000** |

Members of the Supervisory Board elected by the employees and the company's Executive Board have received share-based remuneration in 2005/06 and 2004/05. The conditions of the entered agreements on share-based remuneration are described further in note 34.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **6. Staff costs (continued)** | | | | |
| Number of full-time employees at 30 September, converted | 276 | 244 | 192 | 189 |
| Average number of full-time employees, converted | 276 | 249 | 190 | 192 |

The Group has entered into defined contribution pension plans with a significant number of the Group's employees. The Group has not entered into defined benefit pension plans.

Defined contribution pension plans require the employer to pay a certain amount to a pension provider or the like, though the company bears no risk as regards future development in interest, inflation, mortality, disability, etc regarding the amount to be paid to the employee.

Payment to managers and key employees employed in foreign subsidiaries may in special cases differ from the general payment as regards other benefits and bonus schemes. This reflects an adjustment of the remuneration to local conditions.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **7. Depreciation/amortisation/impairment** | | | | |
| Amortisation of intangible assets | 3,183 | 2,564 | 619 | 0 |
| Impairment of intangible assets | 3,803 | 0 | 0 | 0 |
| Depreciation of tangible assets | 7,706 | 7,650 | 5,512 | 6,333 |
| Profit from sale of tangible assets, net | 0 | 0 | 0 | 0 |
| **Total** | **14,692** | **10,214** | **6,131** | **6,333** |

## 8. Development costs

| | | | | |
|---|---|---|---|---|
| Paid development costs | 46,259 | 29,814 | 46,259 | 29,814 |
| Development costs are recognised as follows: | | | | |
| Cost of sales, etc | 0 | 0 | 0 | 0 |
| Other external expenses | 8,391 | 8,235 | 8,391 | 8,235 |
| Staff costs | 37,868 | 21,579 | 37,868 | 21,579 |
| Depreciation, amortisation and impairment | 0 | 0 | 0 | 0 |
| **Total** | **46,259** | **29,814** | **46,259** | **29,814** |

Impairment of intangible assets for the year
are taken to depreciation, amortisation and impairment.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **9. Fees to auditors appointed by the general meeting** | | | | |
| Fees for audit services: | | | | |
| Deloitte | 479 | 497 | 325 | 395 |
| Mortensen & Beierholm | 0 | 72 | 0 | 72 |
| **Total** | **479** | **569** | **325** | **467** |
| Fees for non-audit services: | | | | |
| Deloitte | 855 | 846 | 787 | 758 |
| Mortensen & Beierholm | 0 | 0 | 0 | 0 |
| **Total** | **855** | **846** | **787** | **758** |

## 10. Financial income

| | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| Interest | 5,652 | 7,260 | 5,523 | 7,191 |
| Interest from group enterprises | 0 | 0 | 1,433 | 812 |
| Price adjustment on securities | 0 | 451 | 0 | 451 |
| **Total** | **5,652** | **7,711** | **6,956** | **8,454** |

## 11. Financial expenses

| | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| Impairment on investments in subsidiaries | - | - | 10,230 | 0 |
| Interest | 2,317 | 1,625 | 1,487 | 1,533 |
| Interest to group enterprises | 0 | 0 | 0 | 6 |
| Loss on foreign currency (net) | 1,033 | 112 | 828 | 665 |
| Price adjustment on securities | 3,757 | 1,945 | 3,757 | 1,945 |
| **Total** | **7,107** | **3,682** | **16,302** | **4,149** |

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **12. Tax on profit/loss for the year** | | | | |
| Current tax on profit/loss for the year | (551) | (536) | 1,192 | 2,502 |
| Change in deferred tax | 179 | 148 | 0 | 659 |
| Adjustment concerning income from abroad | 171 | 406 | 171 | 406 |
| *Adjustment concerning previous years* | | | | |
| Current tax | 0 | 209 | 0 | 648 |
| Deferred tax | 0 | (209) | 0 | (648) |
| *Reduction of tax rate* | | | | |
| Change of deferred tax as a result of change in the corporate tax rate from 30% to 28% | 0 | (1,163) | 0 | (611) |
| **Total** | **(201)** | **(1,145)** | **1,363** | **2,956** |
| *Tax on profit/loss for the year can be specified as follows:* | | | | |
| Income tax rate in Denmark | 28 | 28 | 28 | 28 |
| Disallowable expenses less non-taxable income and other adjustments | 2 | 4 | 8 | 4 |
| Adjustment concerning previous years | 0 | 0 | 0 | 0 |
| Adjustment as a result of valuation of deferred tax assets at recoverable amount | (30) | 0 | (29) | 0 |
| **Effective tax rate, exclusive of regulations as a result of change in the corporate tax rate** | **0** | **32** | **7** | **32** |
| *Tax on changes in equity* | | | | |
| Current tax | 0 | 0 | 0 | 0 |
| Deferred tax | 0 | 0 | 0 | 0 |
| **Total** | **0** | **0** | **0** | **0** |
| Taxes paid/received during the year | 225 | (3,862) | 225 | (3,854) |

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **12. Tax on profit/(loss) for the year (continued)** | | | | |
| **Income taxes, net** | | | | |
| Income taxes on 1 October, net | 583 | (2,533) | 583 | (2,533) |
| Exchange rate adjustments | 0 | 0 | 0 | 0 |
| Additions relating to acquisition of enterprises | (14) | 0 | 0 | 0 |
| Current tax on profit/loss for the year | (551) | (536) | (551) | (529) |
| *Tax paid during the year* | | | | |
| Current year | 313 | 283 | 313 | 283 |
| Previous years, net | (538) | 3,578 | (538) | 3,571 |
| Adjustment of current tax concerning previous years, net | 0 | (209) | 0 | (209) |
| Current tax of changes in equity | 0 | 0 | 0 | 0 |
| **Income taxes at 30 September, net** | **(207)** | **583** | **(193)** | **583** |

Amounts at 30 September stated in brackets are liabilities.

| | Group 2005/06 | Group 2004/05 |
|---|---|---|
| **13. Earnings per share** | | |
| Net profit/loss for the year, DKK '000 | (64,668) | (1,065) |
| Average number of shares | 9,425 | 9,410 |
| Average number of treasury shares | (125) | (125) |
| **Average number of shares in circulation** | **9,300** | **9,285** |
| Average dilution effect on outstanding warrants | 64 | 121 |
| **Average diluted number of shares** | **9,364** | **9,406** |
| **Earnings per share (EPS), DKK** | **(7.0)** | **(0.1)** |
| **Diluted earnings per share (DEPS), DKK** | **(6.9)** | **(0.1)** |

# NOTES

| Amounts in DKK '000 | Group | | | Parent |
|---|---|---|---|---|
| | Completed develop-ment projects | Acquired licences | Goodwill | Acquired licences |
| **14. Intangible assets** | | | | |
| Cost at 1 October 2004 | 7,692 | 500 | 14,354 | 500 |
| Transferred accumulated amortisation and impairment | 0 | 0 | (14,354) | 0 |
| Additions relating to acquisition of enterprises | 0 | 0 | 5,803 | 0 |
| Other additions | 0 | 3,098 | 0 | 3,098 |
| **Cost at 30 September 2005** | **7,692** | **3,598** | **5,803** | **3,598** |
| Amortisation and impairment at 1 October 2004 | (1,282) | (500) | (14,354) | (500) |
| Transferred at cost | 0 | 0 | 14,354 | 0 |
| Amortisation for the year | (2,564) | (0) | (0) | (0) |
| **Amortisation and impairment at 30 September 2005** | **(3,846)** | **(500)** | **0** | **(500)** |
| **Carrying amount at 30 September 2005** | **3,846** | **3,098** | **5,803** | **3,098** |
| Cost at 1 October 2005 | 7,692 | 3,598 | 5,803 | 3,598 |
| Exchange rate adjustments | 0 | 0 | 0 | 0 |
| Additions relating to acquisition of enterprises | 0 | 0 | 7,884 | 0 |
| Disposals | 0 | 0 | (2,000) | 0 |
| **Cost at 30 September 2006** | **7,692** | **3,598** | **11,687** | **3,598** |
| Amortisation and impairment at 1 October 2005 | (3,846) | (500) | 0 | (500) |
| Amortisation for the year | (2,564) | (619) | 0 | (619) |
| Impairment for the year | 0 | 0 | (3,803) | 0 |
| **Amortisation and impairment at 30 September 2006** | **(6,410)** | **(1,119)** | **(3,803)** | **(1,119)** |
| **Carrying amount at 30 September 2006** | **1,282** | **2,479** | **7,884** | **2,479** |

# NOTES

*Goodwill*

Goodwill arisen in relation to business combinations is distributed at the time of assumption to the cash flow generating units which are expected to obtain financial advantages from the assumption. The carrying amount of goodwill is distributed as follows on the respective cash flow generating units:

| | 2005/06 DKK '000 | 2004/05 DKK '000 |
|---|---|---|
| Knuisgaard Teknik, Bredsten | 0 | 5,803 |
| D.R.S. Electronics Ltd., Hong Kong | 7,884 | 0 |
| **Total** | **7,884** | **5,803** |

Goodwill is as a minimum tested once a year as regards impairment and more frequently if there are indications of impairment.

The recoverable amount for the individual cash flow generating units, to which the goodwill amounts have been distributed, are stated based on computation of the units' present value of expected cash flows. The most material uncertainties are in relation to this connected to determination of the discount factors and growth rates as well as expected changes in selling prices and production costs in the budget and terminal periods.

The determined discount factors reflect market evaluations of the timing value of money, reflected in risk free interest and the specific risks connected to the individual cash flow generating unit. The discount factors are determined on a pre-tax basis.

The determined growth rates are based on internal strategy plans as well as industry forecasts.

Estimated changes in selling prices and production costs are based on historical experiences as well as expectations for future changes in the market.

For the purpose of computing the cash flow generating units' present value of expected cash flows, the cash flows stated in the most recent management approved budgets for the next financial year are used as well as strategy plans and projection hereof.

The applied discount factor is determined based on the current market rate increased by a usual risk premium.

*Other intangible assets*

Apart from goodwill, all intangible assets are regarded as having determinable useful lives over which the assets are amortised, see description included under accounting policies.

# NOTES

| Amounts in DKK '000 | Group<br>Land and buildings | Plant and machinery | Other fixtures and fittings, tools and equipment etc | Leasehold improvements |
|---|---|---|---|---|
| **15. Tangible assets** | | | | |
| Cost at 1 October 2004 | 97,253 | 25,046 | 20,842 | 0 |
| Additions relating to acquisition of enterprises | 0 | 0 | 650 | 0 |
| Additions | 70 | 418 | 2,922 | 0 |
| **Cost at 30 September 2005** | **97,323** | **25,464** | **24,414** | **0** |
| Depreciation and impairment at 1 October 2004 | (6,703) | (16,857) | (17,545) | 0 |
| Depreciation for the year | (1,830) | (2,837) | (2,983) | 0 |
| **Depreciation and impairment at 30 September 2005** | **(8,533)** | **(19,694)** | **(20,528)** | **0** |
| **Carrying amount at 30 September 2005** | **88,790** | **5,770** | **3,886** | **0** |
| Cost at 1 October 2005 | 97,323 | 25,464 | 24,414 | 0 |
| Exchange rate adjustments | 0 | 0 | (125) | (36) |
| Additions relating to acquisition of enterprises | 0 | 0 | 651 | 322 |
| Additions | 0 | 8,276 | 3,112 | 100 |
| Disposals | 0 | (1,112) | (8,600) | 0 |
| **Cost at 30 September 2006** | **97,323** | **32,628** | **19,452** | **386** |
| Depreciation and impairment at 1 October 2005 | (8,533) | (19,694) | (20,528) | 0 |
| Exchange rate adjustments | 0 | 5 | 1 | 0 |
| Depreciation for the year | (1,832) | (3,279) | (2,540) | (55) |
| Reversal upon disposals | 0 | 1,112 | 8,600 | 0 |
| **Depreciation and impairment at 30 September 2006** | **(10,365)** | **(21,856)** | **(14,467)** | **(55)** |
| **Carrying amount at 30 September 2006** | **86,958** | **10,772** | **4,985** | **331** |

As at 1 October 2005 the total value according to the public property assessment amounts to DKK 58.0 million (1 October 2004: DKK 58.0 million).

# NOTES

| Amounts in DKK '000 | Parent<br>Land and buildings | <br>Plant and machinery | <br>Other fixtures and fittings, tools and equip-ment etc. |
|---|---|---|---|
| **15. Tangible assets (continued)** | | | |
| Cost at 1 October 2004 | 97,253 | 20,182 | 20,592 |
| Additions | 70 | 44 | 2,814 |
| **Cost at 30 September 2005** | **97,323** | **20,226** | **23,406** |
| Depreciation and impairment at 1 October 2004 | (6,703) | (15,020) | (17,783) |
| Depreciation for the year | (1,830) | (2,049) | (2,454) |
| **Depreciation and impairment at 30 September 2005** | **(8,533)** | **(17,069)** | **(20,237)** |
| **Carrying amount 30 September 2005** | **88,790** | **3,157** | **3,169** |
| Cost at 1 October 2005 | 97,323 | 20,226 | 23,406 |
| Additions | 0 | 211 | 2,725 |
| Disposals | 0 | (1,112) | (8,562) |
| **Cost at 30 September 2006** | **97,323** | **19,325** | **17,569** |
| Depreciation and impairment at 1 October 2005 | (8,533) | (17,069) | (20,237) |
| Depreciation for the year | (1,832) | (1,648) | (2,032) |
| Reversal upon disposals | 0 | 1,112 | 8,563 |
| **Depreciation and impairment at 30 September 2006** | **(10,365)** | **(17,605)** | **(13,706)** |
| **Carrying amount at 30 September 2006** | **86,958** | **1,720** | **3,863** |

As at 1 October 2005 the total value according to the public property assessment amounts to DKK 58.0 million (1 October 2004: DKK 58.0 million).

# NOTES

| Amounts in DKK '000 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|
| **16. Investments in subsidiaries** | | |
| Cost at 1 October | 59,963 | 57,443 |
| Additions during the year concerning assumption of enterprises | 12,112 | 0 |
| Capital increase upon cash investment | 0 | 0 |
| Added value upon addition in 2003/04 | 0 | 2,520 |
| **Cost at 30 September** | **72,075** | **59,963** |
| | | |
| Value adjustments at 1 October | (28,963) | (27,053) |
| *Transition to IFRS* | | |
| Revaluation at cost | 0 | 29,573 |
| Impairment to recoverable amount | 0 | (28,963) |
| Reversal of added value upon addition in 2003/04 | 0 | (2,520) |
| | | |
| Impairment for the year | (21,646) | 0 |
| Reversal of impairment for the year | 11,416 | 0 |
| Dividends received | 0 | 0 |
| Reversed effect of added value of profit/loss and internal profit, net | 0 | 0 |
| Exchange rate adjustment | 0 | 0 |
| **Value adjustments at 30 September** | **(39,193)** | **(28,963)** |
| | | |
| **Carrying amount at 30 September** | **32,882** | **31,000** |

At 30 September 2006, investments in subsidiaries comprise
the entire share capital and all voting rights in the following enterprises:

| Name | Reg. office | Nominal share capital Currency '000 | Payables to Parent DKK '000 | Equity DKK '000 | Profit/loss before tax DKK '000 | Net profit/ loss for the year DKK '000 |
|---|---|---|---|---|---|---|
| RTX Products A/S | Denmark | DKK 5,000 | 80,570 | (15,737) | (44,912) | (47,933) |
| RTX Healthcare A/S | Denmark | DKK 6,000 | 2,987 | 1,139 | (4,056) | (2,923) |
| RTX America, Inc. | USA | USD 500 | (648) | 999 | (1,305) | (1,305) |
| D.R.S. Electronics | Hong Kong | HKD 110 | 13,815 | (706) | (4,643) | (4,643) |
| | | | 96,724 | (14,305) | (54,916) | (56,804) |
| Adjustment of added value and internal profit | | | - | (1,179) | (1,179) | (1,179) |
| | | | **96,724** | **(15,484)** | **(56,095)** | **(57,983)** |

# NOTES

## 16. Investments in subsidiaries (continued)

*Subsidiaries' addresses:*

- RTX Products A/S, Strømmen 6, 9400 Nørresundby, Denmark
- RTX Healthcare A/S, Strømmen 6, 9400 Nørresundby, Denmark
- RTX America, Inc., San Jose, California, USA
- D.R.S. Electronics Ltd., Hong Kong

D.R.S. Electronics Ltd. was acquired in January 2006.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **17. Other long-term assets** | | | | |
| **Other investments** | | | | |
| Cost at 1 October | 18,186 | 14,172 | 18,186 | 14,172 |
| Additions for the year | 0 | 4,014 | 0 | 4,014 |
| **Cost at 30 September** | **18,186** | **18,186** | **18,186** | **18,186** |
| Value adjustments at 1 October | 0 | 0 | 0 | 0 |
| Additions for the year | 0 | 0 | 0 | 0 |
| Disposals for the year | 0 | 0 | 0 | 0 |
| **Value adjustments at 30 September** | **0** | **0** | **0** | **0** |
| **Carrying amount at 30 September** | **18,186** | **18,186** | **18,186** | **18,186** |

Other investments comprise holding of shares in LitePoint Corporation, USA and Thomsen Bioscience A/S, Nørresundby, Denmark.

| | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **Subordinated convertible loan** | | | | |
| Cost at 1 October | 845 | 0 | 845 | 0 |
| Additions for the year | 2,666 | 2,591 | 2,666 | 2,591 |
| Disposals for the year | 0 | (1,746) | 0 | (1,746) |
| **Cost at 30 September** | **3,511** | **845** | **3,511** | **845** |
| **Carrying amount at 30 September** | **3,511** | **845** | **3,511** | **845** |

Subordinated convertible loan has been granted to Thomsen Bioscience A/S.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **17. Other long-term assets (continued)** | | | | |
| **Deposits** | | | | |
| Cost at 1 October | 923 | 822 | 757 | 753 |
| Additions for the year | 41 | 116 | 16 | 19 |
| Disposals for the year | 0 | (15) | 0 | (15) |
| **Cost at 30 September** | **964** | **923** | **773** | **757** |
| **Carrying amount at 30 September** | **964** | **923** | **773** | **757** |

Deposits are not depreciated.

Other long-term assets, besides investments in unlisted shares, are measured at fair market value at the balance sheet date. Unlisted shares are measured at cost if fair market value cannot be stated reliably.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **18. Deferred tax assets** | | | | |
| Deferred tax, net asset at 1 October | 16,495 | 17,301 | 9,329 | 9,929 |
| Exchange rate adjustments | 4 | 0 | 0 | 0 |
| Change in deferred tax on profit/loss for the year, asset | 179 | 148 | 0 | 659 |
| Change of deferred tax as a result of change in the corporate tax rate from 30% to 28% | 0 | (1,163) | 0 | (611) |
| Adjustment of deferred tax concerning previous years | 0 | 209 | 0 | (648) |
| Deferred tax of changes in equity, net | 0 | 0 | 0 | 0 |
| **Deferred tax, net asset at 30 September** | **16,678** | **16,495** | **9,329** | **9,329** |
| | | | | |
| **Specification of deferred tax:** | | | | |
| Intangible assets | 20,928 | 7,894 | 1,018 | 1,267 |
| Tangible assets | 6,186 | 4,252 | 5,232 | 3,614 |
| Inventories | 2,374 | 217 | 125 | 155 |
| Receivables | 1,495 | 2,145 | 1,211 | 2,145 |
| Other short-term assets, etc | 35 | 381 | 35 | 381 |
| Long-term liabilities | 1,330 | 130 | 1,056 | 0 |
| Tax loss for carry-forward | 1,729 | 1,727 | 1,767 | 1,767 |
| Short-term liabilities | (811) | (251) | 0 | 0 |
| Non-recognised deferred tax assets | (16,588) | 0 | (1,115) | 0 |
| **Total** | **16,678** | **16,495** | **9,329** | **9,329** |
| | | | | |
| Which can be divided as follows: | | | | |
| Deferred tax assets | 17,489 | 16,746 | 9,329 | 9,329 |
| Deferred tax liabilities | (811) | (251) | 0 | 0 |
| **Total** | **16,678** | **16,495** | **9,329** | **9,329** |

Amounts which at 30 September are stated in brackets are a liability.

The tax value of deferred tax assets, which are **not** recognised, amounts to DKK 16.6 million (DKK 0 million in 2004/05) and concerns tax losses and other timing differences. Due to significant uncertainty regarding the use of these tax assets, they are not recognised in the balance sheet.

A potential sale of shares in group enterprises is not expected to create significant payable tax.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **19. Inventories** | | | | |
| Raw materials and consumables | 19,192 | 8,547 | 1,076 | 1,100 |
| Work in progress | 422 | 533 | 0 | 0 |
| Finished goods | 22,241 | 13,962 | 0 | 0 |
| **Total inventories** | **41,855** | **23,042** | **1,076** | **1,100** |
| Indirect production costs included in work in progress and finished goods amount to | 987 | 472 | 0 | 0 |
| Charged write-downs of inventories during the year amount to | 10,439 | 1,095 | 108 | 61 |
| Reversed write-downs of inventories during the year amount to | 1,095 | 0 | 61 | 0 |

## 20. Trade receivables

| | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| Receivables, gross | 96,827 | 106,117 | 47,164 | 73,906 |
| Accumulated write-downs to counter probable losses at year-end | (5,338) | (7,662) | (4,325) | (7,662) |
| **Carrying amount at 30 September** | **91,489** | **98,455** | **42,839** | **66,244** |

Write-down is performed at net realisable value equivalent to the sum of future net payments which the receivable amounts are expected to bring. Write-down is stated based on realised losses in previous financial years as well as an assessment of the present financial environment.

The receivables' carrying amounts approximately correspond to their fair market values.

Ongoing assessment of the Group's credit risks related to trade receivables is performed. Based on experience, a relatively large credit risk may occur from time to time as a large part of the receivables are often related to a relatively small number of counterparts and customers.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **21. Contract development projects in progress for a third party** | | | | |
| Market value of development projects in progress | 61,630 | 71,920 | 48,280 | 67,220 |
| Invoiced on account | (59,201) | (71,711) | (45,817) | (68,036) |
| **Contract development projects in progress, net** | **2,429** | **209** | **2,463** | **(816)** |
| which is recognised in the balance sheet as follows: | | | | |
| *Contract development projects in progress* | | | | |
| Receivables | 3,305 | 7,188 | 3,105 | 6,163 |
| Short-term liabilities | (876) | (6,979) | (642) | (6,979) |
| Prepayments received from customers | 0 | 0 | 0 | 0 |
| **Contract development projects in progress, net** | **2,429** | **209** | **2,463** | **(816)** |
| Retained payments for work performed | 0 | 0 | 0 | 0 |
| **Contract development projects in progress and volume of orders at the balance sheet date** | | | | |
| Total volume of orders, etc | 67,048 | 96,369 | 52,707 | 90,111 |
| Of this market value of performed work is recognised as income | (61,630) | (71,920) | (48,280) | (67,220) |
| **Market value of non-performed work at the balance sheet date** | **5,418** | **24,449** | **4,427** | **22,891** |
| Market value of non-performed work at the balance sheet date in % of total volume of orders, etc | 8 | 25 | 8 | 25 |

Carrying amount of contract development projects in progress approximately equals fair market value.

The Group's credit risk on work in progress may be significant as a large part of the stated value of development projects in progress, net often can be related to a relatively small number of counterparts and customers. Moreover, the customers' requests regarding specifications and delivery times may in special cases result in tasks being started before final agreement has been entered. Market value of performed work and incurred costs are in these cases charged to the profit and loss account until final agreement has been signed.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **22. Short-term current asset investments** | | | | |
| Cost at 1 October | 147,411 | 192,957 | 147,411 | 192,957 |
| Additions for the year | 80,662 | 119,535 | 78,723 | 119,535 |
| Disposals for the year | (142,245) | (165,081) | (142,245) | (165,081) |
| **Cost at 30 September** | **85,828** | **147,411** | **83,889** | **147,411** |
| Value adjustments at 1 October | (1,254) | (1,705) | (1,254) | (1,705) |
| Value adjustments for the year | 1,100 | 451 | 1,100 | 451 |
| **Value adjustments at 30 September** | **(154)** | **(1,254)** | **(154)** | **(1,254)** |
| **Carrying amount at 30 September** | **85,674** | **146,157** | **83,735** | **146,157** |
| Short-term current asset investments are measured at fair market value over the profit and loss account. | | | | |
| Short-term current asset investments consist of listed Danish bonds with an: | | | | |
| average maturity of | 3.5 years | 1.9 years | 3.1 years | 1.9 years |
| average effective rate of interest of | 3.8% | 3.0% | 3.6% | 3.0% |
| Bonds terminate within the following periods from the balance sheet date: | | | | |
| Less than one year | 5,885 | 15,061 | 5,004 | 15,061 |
| Between one and two years | 0 | 40,779 | 0 | 40,779 |
| Between two and three years | 0 | 46,473 | 0 | 46,473 |
| Between three and four years | 63,716 | 43,844 | 63,716 | 43,844 |
| Between four and five years | 15,015 | 0 | 15,015 | 0 |
| After five years | 1,058 | 0 | 0 | 0 |
| **Total** | **85,674** | **146,157** | **83,735** | **146,157** |

*Management of interest rate risks*

The Group is primarily exposed to interest rate risk through interest-bearing assets and liabilities. The overall purpose of management of the interest rate risk is to limit the negative effects of interest fluctuations on earnings and the balance sheet. Surplus cash is primarily invested in short-term, solidly credit rated cash bonds in Danish kroner or in money market deposits, also in Danish kroner or USD. The interest rate risk upon investments is managed based on a duration determined relative to a predefined benchmark (3 months CIBOR interest).

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **23. Cash at bank and in hand** | | | | |
| Cash at bank and in hand | 21,177 | 15,373 | 13,677 | 13,211 |
| Marketable securities with an initial maturity of less than 3 months | 0 | 0 | 0 | 0 |
| Short-term bank debt (overdraft account) | (19,870) | (2,374) | (5,734) | (2,374) |
| | **1,307** | **12,999** | **7,943** | **10,837** |

*Management of credit risks*

The Group's cash at bank and in hand primarily consist of deposits in respected banks. Thereby no particular credit risk is assessed as being related to the cash at hand and in bank. Bank deposits and bank debt bear floating interest rates. Carrying amounts are equivalent to the assets' fair market value.

| Amounts in DKK '000 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|
| **24. Share capital** | | |
| Development in share capital: | | |
| Share capital at 1 October | 47,048 | 47,048 |
| Capital increase after exercise of granted warrants | 122 | 0 |
| **Share capital at 30 September** | **47,170** | **47,048** |
| | | |
| Number of shares at DKK 5 at 30 September amounts to | 9,434,051 | 9,409,601 |

# NOTES

| | Parent | | | |
|---|---|---|---|---|
| | 2005/06 | | 2004/05 | |
| | Number of shares at DKK 5 | % of share capital | Number of shares at DKK 5 | % of share capital |
| **25. Treasury shares** | | | | |
| Holding of shares at 1 October | 125,000 | 1.3% | 0 | - |
| Purchase during the year | 0 | - | 125,000 | 1.3% |
| Sale during the year | 0 | - | 0 | - |
| **Holding of shares at 30 September** | **125,000** | **1.3%** | **125,000** | **1.3%** |
| The market price of treasury shares at 30 September, DKK '000 | 9,125 | | 16,939 | |

The Company is authorised to acquire treasury shares of a total face value of 10% of the Company's share capital up to 24 January 2007. The Company's holding of 125,000 shares was acquired for the purpose of partial hedging of the liabilities connected to the share options granted by the company to a limited number of key employees, see note 34.

| | Group | | Parent | |
|---|---|---|---|---|
| **Amounts in DKK '000** | **2005/06** | **2004/05** | **2005/06** | **2004/05** |
| **26. Long-term liabilities** | | | | |
| Mortgage debt as well as other hedged loans maturing 2012 - 2025 and an weighted average interest rate of 2.2% to 4.0% | 26,546 | 28,450 | 26,546 | 28,450 |
| Non-hedged loans as well as other long-term loans maturing in 2007 and a weighted average interest rate of 0% | 0 | 2,000 | 0 | 0 |
| **Total** | **26,546** | **30,450** | **26,546** | **28,450** |

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **26. Long-term liabilities (continued)** | | | | |
| The debt must be paid within the following periods from the balance sheet date: | | | | |
| Less than one year | 1,934 | 1,941 | 1,934 | 1,941 |
| Between one and two years | 2,012 | 3,971 | 2,012 | 1,971 |
| Between two and three years | 2,092 | 2,041 | 2,092 | 2,041 |
| Between three and four years | 2,176 | 2,119 | 2,176 | 2,119 |
| Between four and five years | 2,263 | 2,200 | 2,263 | 2,200 |
| After five years | 16,069 | 18,178 | 16,069 | 18,178 |
| **Total** | **26,546** | **30,450** | **26,546** | **28,450** |
| Long-term liabilities are recognised in the balance sheet as follows: | | | | |
| Short-term liabilities | 1,934 | 1,941 | 1,934 | 1,941 |
| Long-term liabilities | 24,612 | 28,509 | 24,612 | 26,509 |
| **Total** | **26,546** | **30,450** | **26,546** | **28,450** |
| Debt is broken down by currency as follows: | | | | |
| DKK | 18,386 | 21,861 | 18,386 | 19,861 |
| EUR | 8,160 | 8,589 | 8,160 | 8,589 |
| **Total** | **26,546** | **30,450** | **26,546** | **28,450** |
| Of the long-term liabilities there are: | | | | |
| Debt with fluctuating interest rate | 20,848 | 21,789 | 20,848 | 21,789 |
| Debt with fixed interest rate | 5,698 | 8,661 | 5,698 | 6,661 |
| **Total** | **26,546** | **30,450** | **26,546** | **28,450** |
| Effective rate of interest per annum in local currency: | | | | |
| Under 4% | 20,848 | 23,789 | 20,848 | 21,789 |
| Between 4% and 6% | 5,698 | 6,661 | 5,698 | 6,661 |
| More than 6% | 0 | 0 | 0 | 0 |
| **Total** | **26,546** | **30,450** | **26,546** | **28,450** |

Adjustment of above loans to market value at 30 September 2006 will result in costs of DKK 0.3 million (a cost of DKK 0.5 million at 30 September 2005).

Of long-term liabilities, DKK 0.0 million relates to assets held under finance lease (DKK 0.0 million at 30 September 2005).

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **27. Provisions** | | | | |
| Provisions at 1 October | 1,155 | 5,996 | 0 | 5,416 |
| Provisions made during the year | 4,115 | 943 | 3,470 | 0 |
| Consumption during the year | (480) | (5,784) | 0 | (5,416) |
| Reversed during the year | (350) | 0 | (350) | 0 |
| **Provisions at 30 September** | **4,440** | **1,155** | **3,120** | **0** |
| Provisions are recognised in the balance sheet as follows: | | | | |
| Short-term liabilities (less than 1 year) | 3,640 | 461 | 3,120 | 0 |
| Long-term liabilities (between 1 and 5 years) | 800 | 694 | 0 | 0 |
| | **4,440** | **1,155** | **3,120** | **0** |

Guarantee obligations concern goods sold which are delivered with up to two years' guarantee. The liabilities are prepared based on previous years' experiences. The expenses are expected to be paid in the period 1 October 2006 - 30 September 2008.

Loss on work in progress relates to probable losses on contract development projects in progress for a third party where the agreed market values do not exceed the expected cost for the total contract expenses. The loss-making development projects are expected to be terminated during 2006 and 2007.

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| **28. Trade payables** | | | | |
| Trade payables for goods and services delivered | 22,782 | 11,729 | 2,905 | 2,669 |

Carrying amount is equivalent to the fair market value of the liabilities.

# NOTES

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|

## 29. Other payables

| | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| Wages and salaries, personal income taxes, social security costs, holiday pay, etc payable | 5,081 | 3,442 | 3,699 | 2,889 |
| Holiday pay obligations, etc | 19,068 | 17,100 | 14,838 | 13,954 |
| VAT and taxes due | 0 | 4,570 | 0 | 0 |
| Other costs payable, etc | 4,589 | 7,406 | 2,475 | 5,457 |
| **Total** | **28,738** | **32,518** | **21,012** | **22,300** |

Carrying amount of due items concerning wages and salaries, personal income taxes, social security costs, holiday pay, etc, derivative financial instruments, VAT and taxes as well as other expenses due, etc equal the fair market value of the liabilities.

The holiday pay obligation represents the Group's obligation to pay salary during holiday periods which the employees, as at the balance sheet date, have earned the right to hold in subsequent financial years.

## 30. Operating lease commitments

For the years 2006-2011, operating leases have been concluded for lease of premises, etc. The Group's rent obligations in leasehold amount to DKK 8.5 million in the period of interminability (DKK 9.3 million at 30 September 2005) which primarily relates to the Parent.

Rent and lease payments (minimum lease payments) relating to operational lease contracts, including rent obligations, fall due as follows:

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 | Parent 2005/06 | Parent 2004/05 |
|---|---|---|---|---|
| Less than 1 year | 2,450 | 1,755 | 1,799 | 1,755 |
| Between 1 and 5 years | 6,450 | 6,493 | 6,450 | 6,493 |
| More than 5 years | 256 | 1,749 | 256 | 1,749 |
| **Total** | **9,156** | **9,997** | **8,505** | **9,997** |

The Group's costs of rent/leasing amounted to DKK 3.5 million in 2005/06 and DKK 2.5 million in 2004/05. The amounts are recognised in the profit and loss account.

# NOTES

## 31. Contingent liabilities, collateral and contractual obligations

**Contingent liabilities**

The Group's banks have provided bank guarantees and letters of credit at a total amount of DKK 1.0 million of which DKK 0.0 million relates to the Parent and DKK 1.0 million relates to group enterprises. As at 30 September 2005 the corresponding amounts were DKK 7.9 million, DKK 0.0 million and 7.9 million.

In addition to this, the Group has not incurred any guarantee commitments and has not undertaken any guarantees and supply obligations other than obligations and guarantees relating to the services and products developed and sold by the Group.

Claims for relatively small amounts in terms of value have been addressed to the Group. It is the Management's opinion that there are no justifications for the claims and therefore it is considered unnecessary to make a provision for these claims in the annual report.

| | Group | | Parent | |
|---|---|---|---|---|
| **Amounts in DKK '000** | **2005/06** | **2004/05** | **2005/06** | **2004/05** |
| **Collateral** | | | | |
| Mortgage debt with an outstanding debt of | 26,546 | 28,450 | 26,546 | 28,450 |
| is hedged by mortgaged property with related production plant and machinery (mortgage of ancillary equipment) | | | | |
| Carrying amount of mortgaged properties | 86,958 | 88,790 | 86,958 | 88,790 |
| RTX Telecom A/S guarantees for a subsidiary's debt to the company's bank. | | | | |
| Bank debt in subsidiary comprised by the guarantee made amounts to | | | 12,667 | 0 |

RTX Telecom A/S has provided guarantees for a total of DKK 69.9 million towards some of the subsidiaries' cooperative partners. As at 30 September 2005 the equivalent amount was DKK 38.1 million.

RTX Telecom A/S is liable for the total income taxes due in the jointly taxed companies.

# NOTES

## 31. Contingent liabilities, collateral and contractual obligations (continued)

**Contractual obligations**

As part of the Group's business the usual supply agreements etc have been entered, letters of intent have been made towards cooperative partners and other agreements have, moreover, been entered on normal business terms.

| | Group | | Parent | |
|---|---|---|---|---|
| **Amounts in DKK '000** | **2005/06** | **2004/05** | **2005/06** | **2004/05** |
| **32. Other items with no effects on cash flow** | | | | |
| Change in provisions | 3,285 | (4,841) | 3,120 | (5,417) |
| Tax receivables regarding income from abroad | 0 | 406 | 0 | 406 |
| Value adjustment on bond holdings | 3,757 | 1,494 | 3,757 | 1,494 |
| Exchange rate adjustment | (370) | 51 | 0 | 0 |
| Share-based remuneration | 601 | 0 | 601 | 0 |
| Other adjustments | 1 | (2,000) | 1 | 0 |
| **Total** | **7,274** | **(4,890)** | **7,479** | **(3,517)** |

# NOTES

## 33. Related parties

**Related party transactions**

Related parties with significant interest in RTX Telecom Group include the Parent's Supervisory Board, Executive Board and executives as well as these persons' closest family members. Moreover, related parties comprise large shareholders in the Parent as well as companies in which the aforementioned group of persons have material interests.

In addition, related parties comprise group enterprises.

An overview of group enterprises is disclosed in note 16.

**Supervisory Board and Executive Board**

Management's remuneration and share-based remuneration are mentioned in note 6 and note 34.

**Group enterprises**

Trade with group enterprises has comprised the following:

- Sale of products to group enterprises
- Purchase of products from group enterprises
- Sale of services to group enterprises
- Purchase of services from group enterprises

In 2005/06 trade etc between RTX Telecom A/S and related parties amounted to DKK 119.6 million (2004/05: DKK 91.1 million). All trade took place on market terms. The transactions can be stated as follows:

| Amounts in DKK '000 | Sale of products | Purchase of products | Sale of services | Purchase of services | Recei-vables | Payables |
|---|---|---|---|---|---|---|
| **2005/06** | | | | | | |
| Subsidiaries | 69,384 | 38,439 | 6,687 | 5,108 | 97,372 | 648 |
| **2004/05** | | | | | | |
| Subsidiaries | 33,345 | 47,943 | 5,660 | 4,120 | 18,692 | 620 |

Transactions with related parties are eliminated in the consolidated financial statements in accordance with the applied accounting policies.

# NOTES

## 33. Related parties (continued)

Interest income and interest expenses concerning group enterprises are disclosed in notes 10 and 11. The Parent's guarantees towards subsidiaries in relation to agreed credit lines are mentioned in note 31.

In addition, intra-group balances comprise money lending as well as ordinary business balances regarding purchase and sale of products and services.

The Parent has not received dividends from Group enterprises in 2005/06 or in 2004/05.

During the year no transactions were performed between RTX Telecom and the Supervisory Board, the Executive Board, executives, large shareholders or other related parties, apart from payment of normal management's remuneration, see note 6.

# NOTES

## 34. Share-based remuneration

**Employee shares**

In 2004/05 and 2005/06 there were no employee share schemes.

**Warrants**

RTX Telecom A/S has granted 64,300 warrants at DKK 5 to a limited number of executives. The unexercised granted warrants as at 30 September 2006 can be specified as follows:

| Time of issue | Number of warrants at DKK 5 | Exercise price per share at DKK 5 | Exercise period |
|---|---|---|---|
| January 2002 | 37,730 | 97.6000 | 20 January - 4 February 2007 |
| December 2002 | 11,540 | 82.8900 | 20 January - 4 February 2007-2008 |
| December 2003 | 3,030 | 43.6400 | 20 January - 4 February 2007-2009 |
| September 2004 | 12,000 | 57.4800 | 20 January - 4 February 2007-2009 |
| | **64,300** | | |

The granted warrants account for approx. 0.7% of the Company's share capital.

Movements of the year and unexercised warrants at 30 September 2005 and 30 September 2006 can be specified as follows:

| | Total | Supervisory Board | Exe-cutive Board | Execu-tives | Other staff |
|---|---|---|---|---|---|
| Unexercised warrants at 1 October 2004 | 170,000 | 8,000 | 0 | 35,000 | 127,000 |
| Supervisory Board members who have resigned | 0 | (3,000) | 0 | 0 | 3,000 |
| Expired warrants | (46,000) | (2,000) | 0 | (8,000) | (36,000) |
| Employees who have resigned | (3,000) | 0 | 0 | 0 | (3,000) |
| **Unexercised warrants at 30 September 2005** | **121,000** | **3,000** | **0** | **27,000** | **91,000** |

# NOTES

| | Total | Supervisory Board | Exe-cutive Board | Execu-tives | Other staff |
|---|---|---|---|---|---|
| **34. Share-based remuneration (continued)** | | | | | |
| Unexercised warrants at 1 October 2005 | 121,000 | 3,000 | 0 | 27,000 | 91,000 |
| Supervisory Board members who have joined | 0 | 2,000 | 0 | 0 | (2,000) |
| Exercise of warrants | (24,450) | (1,450) | 0 | (4,430) | (18,570) |
| Expired warrants | (32,250) | (1,510) | 0 | (4,480) | (26,260) |
| Employees who have resigned | 0 | 0 | 0 | 0 | 0 |
| **Unexercised warrants at 30 September 2006** | **64,300** | **2,040** | **0** | **18,090** | **44,170** |
| *Market value of unexercised warrants* | | | | | |
| 30 September 2006, DKK '000 | 644 | 5 | 0 | 389 | 250 |
| 30 September 2005, DKK '000 | 6,438 | 25 | 0 | 3,583 | 2,830 |

**Share options**
RTX Telecom A/S has granted 157,916 share options at DKK 5 to a limited number of executives. The unexercised granted share options can be specified as follows:

| Time of issue | Number of share options at DKK 5 | Exercise price per share at DKK 5 | Exercise period |
|---|---|---|---|
| May 2005 | 132,916 | 70.80 – 79.65 | 25 May 2008-24 May 2012 |
| September 2006 | 25,000 | 65.00 – 87.75 | 1 September 2009-31 August 2013 |
| | **157,916** | | |

The granted share options account for approx. 1.7% of the Company's share capital.

*Exercise price, exercise period and hedging*

The exercise price for share options is fixed as the average rate for a period of 5 trading days immediately up to the time of issue plus 5% per started year after the time of issue.

# NOTES

## 34. Share-based remuneration (continued)

The share options can in an ordinary course be exercised no earlier than 36 months after the time of issue and must be exercised 84 months after the time of issue. Special conditions have been agreed regarding exercise if extraordinary conditions should occur, for instance the employee's resignation, during the period of agreement.

RTX Telecom's holding of treasury shares is planned to be used to fulfil the Group's obligations related to the granted unexercised share options.

Movements of the year and unexercised share options at 30 September 2005 and 30 September 2006 can be specified as follows:

| | Total | Supervisory Board | Exe-cutive Board | Exe-cutives | Other staff |
|---|---|---|---|---|---|
| Unexercised share options at 1 October 2004 | 0 | 0 | 0 | 0 | 0 |
| Granted in May 2005 | 142,500 | 15,000 | 0 | 90,000 | 37,500 |
| **Unexercised share options at 30 September 2005** | **142,500** | **15,000** | **0** | **90,000** | **37,500** |
| Unexercised share options at 1 October 2005 | 142,500 | 15,000 | 0 | 90,000 | 37,500 |
| Granted in September 2006 | 25,000 | | 25,000 | | |
| Supervisory Board members who have resigned | 0 | (7,500) | | | 7,500 |
| Employees who have resigned | (9,584) | | | | (9,584) |
| **Unexercised share options at 30 September 2006** | **157,916** | **7,500** | **25,000** | **90,000** | **35,416** |
| *Market value of unexercised share options* | | | | | |
| 30 September 2006, DKK '000 | 5,922 | 279 | 983 | 3,344 | 1,316 |
| 30 September 2005, DKK '000 | 12,922 | 1,360 | 0 | 8,161 | 3,401 |

At the time of issue the fair market value of the share options was stated as follows:

| | |
|---|---|
| Granting in May 2005, DKK '000 | 2,738 |
| Granting in September 2006, DKK '000 | 824 |

# NOTES

## 34. Share-based remuneration (continued)

**Warrants and share options**

The market value of all unexercised warrants and share options at 30 September 2006 is calculated at DKK 6,565k on the basis of the Black-Scholes model for valuation of warrants and share options. The calculation is based on a volatility of 53.7%. Interest rates up to the expiry of the warrant and the share option are based on CIBOR and the Danish swap interest rates at 30 September 2006.

The stated fair market values for warrants and share options at the time of issue are recognised proportionally in the profit and loss account as staff costs over the period until the time of exercise. In the financial year 2005/06, DKK 601k are taken to the profit and loss account (2004/05: DKK 0k).

## 35. Ownership

**Shareholders**

As at 30 September 2006 approximately 5,400 shareholders were registered on name. These registered shareholders were holding shares equivalent to approximately 76% of the share capital.

The following shareholders hold shares which either carry at least 5% of the voting rights of the share capital or have a nominal value of at least 5% of the share capital:

| | Ownership share |
|---|---|
| Jørgen Elbæk, Knepholtvej 22, 9430 Vadum, Denmark | 7.22% |
| Jens Hansen, Kronen 18, 9260 Gistrup, Denmark | 8.75% |
| Jens Toftgaard Petersen, Ravnhøj 82, 9000 Aalborg, Denmark | 7.22% |
| Mogens Westeraa, Kattegatsvej 34, 9700 Brønderslev, Denmark | 5.41% |

At year-end, members of the Group's Supervisory Board and Executive Board had the following personal shareholding, warrants and share options in RTX Telecom:

| | Number of shares | | Number of warrants | | Number of share options | |
|---|---|---|---|---|---|---|
| | Year-end 2005/06 | Year-end 2004/05 | Year-end 2005/06 | Year-end 2004/05 | Year-end 2005/06 | Year-end 2004/05 |
| Supervisory Board | 2,023,771 | 2,033,930 | 2,040 | 3,000 | 7,500 | 15,000 |
| Executive Board | 0 | 681,250 | 0 | 0 | 25,000 | 0 |
| **Total** | **2,023,771** | **2,715,180** | **2,040** | **3,000** | **32,500** | **15,000** |

# NOTES

## 35. Ownership (continued)

Changes in the Executive Board's holding of RTX Telecom shares and share options during the financial year 2005/06 is a result of changes in Management which was made to the Company's Executive Board. CEO Tage Rasmussen was granted 25,000 share options on 1 September 2006, at the time for taking up office.

**The Supervisory Board and the Executive Board hold the following shares in RTX Telecom A/S**

| Number of shares at DKK 5 | 30 Sept. 2005 | Purchased during the year | Sold during the year | 30 Sept. 2006 | Market value at 30 Sept. 2006 DKKm |
|---|---|---|---|---|---|
| **Supervisory Board**: | | | | | |
| Poul Lind | 0 | | | 0 | 0.0 |
| Per Møller | 2,000 | | | 2,000 | 0.1 |
| Peter Christensen**** | 330 | | | - | - |
| Jørgen Dalby-Jakobsen*** | - | 500 | | 2,181 | 0.2 |
| Dennis Elgaard | 1,725 | 990 | | 2,715 | 0.2 |
| Jens Hansen | 825,625 | | | 825,625 | 60.3 |
| Christian Jørgensen* | 0 | | | 0 | 0.0 |
| John R. Phelps** | 0 | | | - | - |
| Jens Toftgaard Petersen | 681,250 | | | 681,250 | 49.7 |
| Mogens Westeraa | 523,000 | | (13,000) | 510,000 | 37.2 |
| **Total** | **2,033,930** | **1,490** | **(13,000)** | **2,023,771** | **147.7** |
| **Executive Board:** | | | | | |
| Tage Rasmussen* | 0 | | | 0 | 0.0 |
| Jørgen Elbæk** | 681,250 | | | - | - |
| **Total** | **681,250** | | | **0** | **0.0** |
| **Total shareholding of the Supervisory Board and the Executive Board** | **2,715,180** | | | **2,023,771** | **147.7** |

The calculated market value is based on the share prices listed at the end of the financial year.

| | | |
|---|---|---|
| * | = | joined in 2005/06 |
| ** | = | resigned in 2005/06 |
| *** | = | joined in 2005/06, resigned in 2004/05 |
| **** | = | resigned in 2005/06, joined in 2004/05 |

# NOTES

## 35. Ownership (continued)

**The Supervisory Board and the Executive Board have the following outstanding unexercised warrants and share options:**

| Number at DKK 5 | | Warrants 30 Sept. 2006 | Warrants 30 Sept. 2005 | Share options 30 Sept. 2006 | Share options 30 Sept. 2005 |
|---|---|---|---|---|---|
| **Supervisory Board**: | | | | | |
| Poul Lind | | 0 | 0 | 0 | 0 |
| Per Møller | | 0 | 0 | 0 | 0 |
| Peter Christensen | (resigned in 2005/06 joined in 2004/05) | - | 0 | - | 7,500 |
| Jørgen Dalby-Jakobsen | (joined in 2005/06 resigned in 2004/05) | 1,020 | - | 0 | - |
| Dennis Elgaard | | 1,020 | 3,000 | 7,500 | 7,500 |
| Jens Hansen | | 0 | 0 | 0 | 0 |
| Christian Jørgensen | (joined in 2005/06) | 0 | - | 0 | - |
| John R. Phelps | (resigned in 2005/06) | - | 0 | - | 0 |
| Jens Toftgaard Petersen | | 0 | 0 | 0 | 0 |
| Mogens Westeraa | | 0 | 0 | 0 | 0 |
| **Total** | | **2,040** | **3,000** | **7,500** | **15,000** |
| | | | | | |
| **Executive Board:** | | | | | |
| Tage Rasmussen | (joined in 2005/06) | 0 | - | 25,000 | - |
| Jørgen Elbæk | (resigned in 2005/06) | - | 0 | - | 0 |
| **Total** | | **0** | **0** | **25,000** | **0** |
| | | | | | |
| **Outstanding, unexercised warrants and share options at DKK 5 granted to the Supervisory Board and the Executive Board, total** | | **2,040** | **3,000** | **32,500** | **15,000** |

# NOTES

## 36. Derivative financial instruments

**Derivative financial instruments which do not comply with the hedging conditions**

At the balance sheet date, the Group has entered into foreign currency hedging agreements for an amount of DKK 0.0 million. At the balance sheet date, the Group entered into other agreements regarding derivative financial instruments for an amount of DKK 0.0 million. The corresponding amounts as at 30 September 2005 were DKK 0.0 million.

## 37. Public grants

Neither in 2005/06 nor in 2004/05 did the RTX Telecom Group receive public grants of a significant amount.

| Amounts in DKK '000 | Group 2005/06 | Group 2004/05 |
|---|---|---|
| **38. Acquisition of enterprises and activities** | | |
| Long-term assets | 973 | 650 |
| Inventories | 491 | 47 |
| Receivables | 11,560 | 0 |
| Cash at bank and in hand, net | 2,576 | 0 |
| Short-term liabilities | (11,372) | 0 |
| **Assumed net assets** | **4,228** | **697** |
| Goodwill | 7,884 | 5,803 |
| **Acquisition price** | **12,112** | **6,500** |
| Long-term liabilities | 0 | (2,000) |
| Of this amount, cash at bank and in hand, net | 0 | 0 |
| **Cash acquisition price, including transaction costs** | **12,112** | **4,500** |

In January 2006, the RTX Telecom Group assumed the shares in D.R.S. Electronics Ltd., Hong Kong along with related tools and rights.

As at 1 October 2004, the RTX Telecom Group assumed the activities in the development company Knuisgaard Teknik, Bredsten, Denmark.

The transactions are in terms of accounting recognised after the method of assumption.

# NOTES

## 39. Effect of changes in accounting policies upon transition to IFRS

As mentioned in note 1, RTX Telecom A/S' annual report is as from this financial year presented in accordance with the International Financial Reporting Standards (IFRS). The transition to financial reporting according to IFRS means that the IFRS applicable as at the balance sheet date in the transitional years must be applied with retrospective effect to the first financial year presented in the annual report for the transitional year.

The most recent annual report for RTX Telecom A/S for 2004/05 was presented in accordance with the Danish Financial Statements Act and the Danish Accounting Standards. In relation to the transition to financial reporting according to IFRS for this financial year, an opening balance sheet was prepared as at 1 October 2004 in accordance with IFRS 1. This opening balance sheet was prepared in accordance with the IFRS applicable for the financial year commencing on 1 October 2005 or later, see description under accounting policies.

***Financial instruments***

The provisions of IAS 32 and IAS 39 regarding information and presentation, respectively, as well as recognition an measurement of financial instruments were not applied until 1 October 2005 in accordance with the commencement provisions of these standards. Comparative figures for 2004/05 and previous years are not restated to the changed accounting policies.

***Financial highlights outline***

The comparative figures in the financial highlights outline for the years 2001/02 - 2003/04 have not been restated to reflect the change in accounting policies. Those corrections necessary, if the comparative figures in the financial highlights outline for the years 2001/02 - 2003/04 were to be adapted to IFRS, are equivalent to those corrections performed for the opening balance sheet as at 1 October 2004, see comment below.

**Reclassifications**

Besides changes in accounting policies concerning recognition and measurement, the following reclassifications and changes were performed in the presentation with restatement of comparative figures for 2004/05:

- Cash in the cash flow statement only comprises cash at bank and in hand, including foreign exchange holdings as well as short-term current asset investments which only have an insignificant risk for changes in value. A significant risk is considered to exist when the residual term for short-term current asset investments at the time of acquisition exceeds 3 months.

# NOTES

## 39. Effect of changes in accounting policies upon transition to IFRS (continued)

- Other provisions are no longer presented as a separate main group called provisions, though is included under long-term and short-term liabilities dependent on expected settlement time.
- Proposal for dividend for the financial year is not disclosed as a separate item in equity but is disclosed in the notes.
- Long-term assets intended for sale and related liabilities are presented as separate items under assets and liabilities, respectively.
- Profit/loss from terminated activities, including loss and gain upon sale of activities, is presented net as a separate item under the profit and loss account. Thereby, the profit and loss account is divided into profit/loss from continuing activities and profit/loss from terminated activities. Correspondingly, the cash flows from terminated activities are presented separately as a net item under the cash flow statement.

**Notes**
***A. Deferred tax assets***
Deferred tax assets are reclassified as long-term assets.

***B. Short-term current asset investments***
Short-term current asset investments (listed bonds) with a term of more than 3 months at the time of acquisition are reclassified as investment activity in the cash flow statement.

***C. Provisions***
Provisions are reclassified as long-term and short-term liabilities, respectively.

***D. Investments in subsidiaries (Parent)***
Investments in subsidiaries are measured at cost. If cost exceeds the recoverable amount, impairment is performed down to such lower amount and recognised in the profit and loss account.

***E. Contract development projects in progress for a third party***
The individual development project in progress is recognised in the balance sheet under receivables or liabilities, depending on whether net value is a receivable or a liability.

# NOTES

## 39. Effect of changes in accounting policies upon transition to IFRS (continued)

### Balancing of equity as at 1 October 2004 (Opening balance sheet)

| | | Group | | |
|---|---|---|---|---|
| Amounts in DKK '000 | Note | Previous accounting policies at 1 Oct. 2004 DKK'000 | Effect from transi-tion to IFRS at 1 Oct. 2004 DKK'000 | IFRS 1 Oct. 2004 DKK'000 |
| Intangible assets | | 6,410 | | 6,410 |
| Tangible assets | | 102,036 | | 102,036 |
| Other long-term assets | A | 14,994 | 17,301 | 32,295 |
| **Long-term assets** | | **123,440** | **17,301** | **140,741** |
| Inventories | | 5,257 | | 5,257 |
| Receivables | A,E | 87,204 | (11,402) | 75,802 |
| Short-term current asset investments | B | 191,252 | | 191,252 |
| Cash at bank and in hand | | 39,952 | | 39,952 |
| **Short-term assets** | | **323,665** | **(11,402)** | **312,263** |
| **Assets** | | **447,105** | **5,899** | **453,004** |
| Share capital | | 47,048 | | 47,048 |
| Share premium account | | 298,703 | | 298,703 |
| Retained earnings | | 29,117 | | 29,117 |
| **Equity** | | **374,868** | **0** | **374,868** |
| Provisions | C | 5,996 | (5,996) | 0 |
| Long-term liabilities | C | 28,176 | 209 | 28,385 |
| Short-term liabilities | C,E | 38,065 | 11,686 | 49,751 |
| **Liabilities** | | **72,237** | **5,899** | **78,136** |
| **Equity and liabilities** | | **447,105** | **5,899** | **453,004** |

# NOTES

## 39. Effect of changes in accounting policies upon transition to IFRS (continued)

### Balancing of equity as at 1 October 2004 (Opening balance sheet)

| | | Parent | | |
|---|---|---|---|---|
| Amounts in DKK '000 | Note | Previous accounting policies at 1 Oct. 2004 DKK'000 | Effect from transi-tion to IFRS at 1 Oct. 2004 DKK'000 | IFRS 1 Oct. 2004 DKK'000 |
| Intangible assets | | 0 | | 0 |
| Tangible assets | | 98,521 | | 98,521 |
| Other long-term assets | A,D | 45,315 | 10,539 | 55,854 |
| **Long-term assets** | | **143,836** | **10,539** | **154,375** |
| Inventories | | 899 | | 899 |
| Receivables | A,E | 63,219 | (4,030) | 59,189 |
| Short-term current asset investments | B | 191,252 | | 191,252 |
| Cash at bank and in hand | | 37,614 | | 37,614 |
| **Short-term assets** | | **292,984** | **(4,030)** | **288,954** |
| **Assets** | | **436,820** | **6,509** | **443,329** |
| Share capital | | 47,048 | | 47,048 |
| Share premium account | | 298,703 | | 298,703 |
| Retained earnings | D | 29,117 | 610 | 29,727 |
| **Equity** | | **374,868** | **610** | **375,478** |
| Provisions | C | 5,416 | (5,416) | 0 |
| Long-term liabilities | C | 28,176 | | 28,176 |
| Short-term liabilities | C,E | 28,360 | 11,315 | 39,675 |
| **Liabilities** | | **61,952** | **5,899** | **67,851** |
| **Equity and liabilities** | | **436,820** | **6,509** | **443,329** |

# STATEMENT BY THE MANAGEMENT ON THE ANNUAL REPORT

The Supervisory Board and the Executive Board have today considered and approved the annual report of RTX Telecom A/S for 2005/06.

The annual report of the Group and the Parent is prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports applicable to listed companies.

We consider the applied accounting policies appropriate for the annual report to provide a true and fair view of the Group's and the Parent's assets, equity and liabilities, financial position as at 30 September 2006 as well as of results and cash flows for the financial year 2005/06.

We recommend the annual report for adoption at the Annual General Meeting.

Nørresundby, 11 December 2006

**Executive Board**

Tage Rasmussen
Managing Director

**Supervisory Board**

| | | |
|---|---|---|
| Poul Lind<br>Chairman of the Board | Per Møller<br>Deputy Chairman | Jørgen Dalby-Jakobsen |
| Dennis Elgaard | Jens Hansen | Christian Jørgensen |
| Jens Toftgaard Petersen | Mogens Westeraa | |

# AUDITORS' REPORT

**To the shareholders of RTX Telecom A/S**

We have audited the annual report of RTX Telecom A/S for the financial year 2005/06. The annual report has been prepared in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports applicable to listed companies.

The annual report is the responsibility of the Company's Management. Our responsibility is to express an opinion on the annual report based on our audit.

**Basis of opinion**

We conducted our audit in accordance with Danish Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the annual report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the annual report. An audit also includes assessing the accounting policies applied and significant estimates made by Management as well as evaluating the overall annual report presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit has not resulted in any qualification.

**Opinion**

In our opinion, the annual report gives a true and fair view of the Group's and the Parent's financial position at 30 September 2006 and of the results of the Group's and the Parent's operations and cash flows for the financial year 2005/06 in accordance with the International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for annual reports applicable to listed companies.

Aalborg, 11 December 2006

**Deloitte**
Statsautoriseret Revisionsaktieselskab

| | |
|---|---|
| Poul Erik Wagner | Hans Østergaard |
| State Authorised | State Authorised |
| Public Accountant | Public Accountant |

# GLOSSARY

| Technical term | Explanation |
|---|---|
| ***1G, 2G, 2.5G, 3G, 4G*** | The very first mobile telephony systems (1G, i.e. first generation) were analogue, and only used for voice transmission. One example of a 1G mobile telephony system is NMT, which was mainly used in the Nordic countries.<br><br>The second generation (2G) standards are digital, and although principally used for voice transmissions, it can also be used for sending and receiving data. Examples of 2G standards are GSM and CDMA. GPRS, which transmits data twelve times faster than GSM and can be used for “always on” links to the Internet, for example, is a 2.5G technology.<br><br>3G provides the user with a broadband connection for transferring sound, images and video. It is up to 200 times faster than GSM. Examples of 3G technologies include W-CDMA, TD-SCDMA and UMTS. There is already discussion of a fourth generation (4G), which will be approximately 4,000 times faster than GSM. |
| ***ADSL*** | ADSL (Asymmetric Digital Subscriber Line) is a broadband technology from the xDSL family allowing for high-speed data transmission via an ordinary telephone network. ADSL can support a number of applications, including sound, video and data. Asymmetric transmission means that there are different speeds for downstream (the direction towards the user - i.e. download) and for upstream (direction towards the operator - i.e. upload). Ordinary ADSL supports speeds of up to approximately 9 Mbit/s. |
| ***AV*** | AV is an abbreviation for Audio-Visual and is a general description of products used for sound and images. |
| ***Baseband*** | Baseband is a general term for part of the physical components of a wireless communication product. Typically, this would include the control circuitry (microprocessor), the power supply, amplifiers, etc. |
| ***bit/s (bps)*** | Just as the speed of a car is measured in kilometres or miles per hour, so the speed of data transfer is measured as bits per second, abbreviated to bit/s or bps. 1 kbit/s = 1,024 bit/s; 1 Mbit/s = 1,048,976 bit/s. The data transmission speed of a GSM mobile telephone is 9.6 kbit/s, GPRS up to 171.2 kbit/s, and UMTS up to 2 Mbit/s. |
| ***Bluetooth™*** | This is a global technology standard that can easily create a wireless connection at distances of between 10 and 100 metres, and thus replace cables. Bluetooth is mainly used for mobile telephones, so the user can, for example, speak through a mobile telephone via a wireless Bluetooth headset and it will be easy to exchange business cards between the two mobile telephones. Bluetooth can also be used for a number of other applications, such as wireless connection between a mobile telephone and a laptop or connection between a MP3 music player and a stereo headset. The two most widely distributed versions of Bluetooth (versions 1.1 and 1.2) have a maximum transfer speed of 723.2 kbit/s. Enhanced Data Rates (EDR) are introduced in Bluetooth version 2.0 and the data transfer speed in this version reaches a maximum of 3 Mbit/s. |

# GLOSSARY

| Technical term | Explanation |
|---|---|
| ***CDMA, IS-95,*** ***CDMA 2000 1x,*** ***CDMA 450*** | CDMA is the North American answer to the GSM mobile telephone standard. It is a standard also used in a number of other countries, especially in Asia. After GSM, CDMA is the most commonly used mobile telephone standard in the world. CDMA stands for Code Division Multiple Access and refers to the various technologies used in second and third generation (2G and 3G) mobile telephones. One of the advantages provided by CDMA is a relatively good and cheap use of network capacity. IS-95 is a CDMA standard. CDMA 2000 1x is a development of the CDMA IS-95 standard, with a voice and data capacity twice that of IS-95. CDMA 450 is a standard which is becoming widespread in Asia and Eastern Europe. |
| ***The cellular market*** | The cellular market is a term used to cover all mobile telephony technologies and consists mainly of mobile telephone customers and subscribers, manufacturers and operators. |
| ***DCT 2.4 GHz / WDCT*** | DCT 2.4 GHz (Digital Cordless Telecommunication) or WDCT (World Digital Cordless Telecommunication) is a licence-free technology that makes it possible to speak wirelessly via an ordinary telephone connection. Unlike DECT, DCT 2.4 GHz can be used all over the world. DCT 2.4 GHz has mainly been targeted to the North American market due to the fact that the common DECT frequencies have not been allocated to DECT in this area until 2005 (see also US-DECT). |
| ***DECT*** | DECT (Digital Enhanced Cordless Telecommunications) is a technology that makes it possible to talk wirelessly via an ordinary telephone connection at a range of up to 300 metres. This was originally an European standard, but it has subsequently also been adopted in a number of non-European countries. Many predicted that DECT would die quickly after the introduction of Bluetooth and W-LAN at the end of the 90's, however, the truth is that today DECT is still a strong technology which is also used in other contexts than wireless telephones - an example is the wireless controller for Xbox 360 ™. |
| ***DPRS*** | DPRS stands for DECT Packet Radio Service. It is a wireless technology that can transmit and receive data based on DECT technology. DPRS allows the user to send and receive e-mails on a laptop PC wirelessly. The range is 50–300 metres, and the speed up to 552 kbit/s, giving sufficient bandwidth for most ADSL connections. DPRS is in many ways similar to GPRS which is used on the GSM network for package linked data. |
| ***EDGE*** | EDGE (Enhanced Data Global Evolution) is an extension of GSM. EDGE gives the mobile telephone user access to increased bandwidth and multimedia services, such as video clips. From the point of view of the operator, the advantage of EDGE is that this technology allows the existing GSM/GPRS infrastructure to be expanded to EDGE, achieving data transfer speeds almost as high as those of UMTS without the need to buy a UTMS licence or build a completely new infrastructure. EDGE has a maximum data speed of 384 kbit/s and belongs to the category 2.75G. |
| ***GPRS*** | General Packet Radio Service (GPRS) is a technology used for sending and receiving package linked date. It runs over a GSM infrastructure, meaning that existing GSM operators can upgrade their infrastructure to carry GPRS data transmissions. GPRS enables surfing the Internet from a laptop PC via a GPRS mobile telephone. It is approximately 12 times as fast as GSM. GPRS is one of the 2.5 generation technologies (2.5G). |

# GLOSSARY

| Technical term | Explanation |
|---|---|
| ***GPS*** | GPS (Global Positioning System) is a system for determining the location of an object, for instance a car or a person with an accuracy of between 10 and 100 metres. This location can be displayed on a map in a car, or on the display of a mobile telephone. GPS is owned by the American Ministry of Defence and operates via 21 satellites that orbit the Earth. |
| ***GSM*** | GSM (Global System for Mobile communication) is the most commonly used mobile telephone system throughout the world. It is primarily used for voice communication, and is defined as a second generation technology (2G). GSM can, however, also transfer data and enable Internet use from a laptop via a GSM mobile telephone. Short text messages can also be sent and received with a mobile telephone, using SMS (Short Message Service), and now it is also possible to send images and video clips via MMS (Multimedia Messaging Service). |
| ***GSM/GPRS*** | GSM (Global System for Mobile communication) combined with GPRS (General Packet Radio Services) is known all over the world as 2.5 generation (2.5 G) GSM network. The GSM/GPRS network is one step towards the 3G network and is suitable for supporting multimedia facilities because of the high data transmission speed. |
| ***IC*** | IC is an abbreviation for an Integrated Circuit, also known as a chip or chipset. The functionality of an IC is the heart of an electronics product, and the nature of the functionality depends on the particular product. An IC can, for example, function either as a memory or a control device. |
| ***IDC*** | International Data Corporation is a reputable supplier of market analyses to and about the IT and telecom sectors. |
| ***Interference*** | Interference is the term used when two or more signals disturb each other and thus affect communication between two or more devices. |
| ***Internet telephony*** | Internet telephony is in short telephony via the Internet and not via the conventional telephone connections. As opposed to conventional telephony where each connection occupies the entire connection more users can share the same connection, just as lots of cars can use the same motorway. For instance this means that several households in an apartment block can use the same broadband connection and that each individual household can cancel their ordinary telephone subscription and use Internet telephony in stead. Moreover, it is possible to be on the phone free of charge or very cheap via the Internet. |
| ***IP*** | Internet Protocol (IP) is a method or protocol for sending data over the Internet. IP network is package linked network where data is divided into packages of varying sizes. Voice can also be transferred via an IP network (Voice over IP) and an application using this is called IP Telephony.<br><br>IP is also used as an abbreviation for ownership of intellectually generated properties, ”Intellectual Property”.<br><br>See also "Silicon IP" and "VoIP". |
| ***IS-95*** | IS-95 is a CDMA standard. |

# GLOSSARY

| Technical term | Explanation |
| --- | --- |
| ***ISDN*** | Integrated Service Digital Network is a standard established by ITU (International Telecommunication Union). It enables digital traffic over existing copper wires. This means that a household can have two telephone numbers for the same connection, and that it is possible to surf the Internet twice as fast as with an ordinary telephone link-up and a 56k modem. ISDN is the precursor to for instance ADSL. |
| ***IT*** | Information Technology (IT) is a term covering the many diverse electronic means and methods for creating, storing, exchanging and using information in various formats, whether images, documents, telephone conversations, video, etc. |
| ***ITSP*** | ITSP is an abbreviation for Internet Telephony Service Provider which is the English term for a provider of telephony via the Internet. |
| ***LAN*** | A LAN or Local Area Network is constituted by a group of units (for instance routers, switches, PCs). A LAN for instance makes it possible to share the same Internet connection (through for instance a cable modem at the home), printers and/or servers. |
| ***M2M*** | M2M means Machine-to-Machine communication. According to the largest mobile operators, the number of other wireless products will soon be twice the number of mobile phones. This is a result of the growing use of tele services.<br><br>RTX Telecom has unique technical know-how in the development of wireless products (also including M2M) and integration of these for information servers on the Internet. |
| ***NMT*** | NMT (Nordic Mobile Telephone System) was the first mobile analogue telephone system and contributed to launching of 1G mobile systems at the end of the 1970s and at the beginning of the 1980s. NMT still exists and is under development in several countries all over the world as the technology is relatively inexpensive and has a wide range. |
| ***ODM*** | Original Design Manufacturer (ODM) is a business model involving the development of a product according to the customer's product requirement specification. In the typical ODM model, the ODM supplier designs, develops and manufactures the complete product. For instance, based on detailed product requirement specifications from a customer, RTX Telecom has designed a Wireless Telephone Line Extender (TLE), including the development and handling of the manufacturing of the product. |
| ***OEM*** | An Original Equipment Manufacturer (OEM) is a manufacturing company developing and manufacturing standardized products or modules, which are then incorporated into end products using the reseller's brand name. There is a low degree of customisation of the OEM product compared to an ODM offering. The customer only performs a few alterations to the final product, this is usually only a brand name and packaging. |
| ***PABX*** | Once upon a time, telephone calls had to be connected manually by the switchboard operator. Such a system was known as a PBX, or Private Branch Exchange. These days, such connections are established automatically, and so the term Private Automatic Branch Exchange (PABX), i.e. an automated switchboard, is used. |
| ***Radio Frequency*** | Radio Frequency is a term for the part of the electromagnetic spectrum used to transfer wireless information (for instance between a mobile telephone and an antenna mast). |

# GLOSSARY

| Technical term | Explanation |
|---|---|
| ***Repeater*** | A repeater is a unit which transmits the data it receives. A repeater is primarily used to extend on the coverage area for a wireless technology (for instance, a DECT repeater can extend the DECT telephones' coverage area). |
| ***RF*** | RF is a generic term for the radio part that establishes the wireless link in a communications product. RF stands for Radio Frequency. |
| ***Silicon IP*** | Silicon IP or Silicon Intellectual Properties are an expression used for design or intellectual know-how used to make a chip or IC function in a given way. |
| ***SIP*** | SIP (Session Initial Protocol) is a protocol which for instance enables telephone conversations via the Internet. Via a SIP based softphone it is possible to make calls free of charge to other SIP users as well as to ordinary telephone numbers and mobiles all over the world at a low rate. |
| ***Skype™*** | Skype™ is a programme allowing telephone conversations via the Internet. Calls to other Skype™ users are free of charge as well as calls to ordinary telephone numbers and mobiles all over the world are at a low rate (via SkypeOut and SkypeIn). |
| ***Softphone*** | A softphone is a programme allowing telephone conversations via the Internet. One of the best known softphones is Skype. Calls to other softphone users are therefore free of charge as well as it typically is possible to make calls to ordinary telephone and mobile phone numbers all over the world at a low rate. |
| ***Software*** | Software is a general term for the part of the system which makes a piece of hardware do certain things (for instance it is software that controls the micro processor in the washing machine - it is a limited programme and it is written for a specific application). |
| ***TD-SCDMA*** | TD-SCDMA stands for Time Division – Synchronous Code Division Multiple Access. TD-SCDMA is a third generation mobile telephony standard developed by CATT (China Academy of Telecommunications Technology) in collaboration with Datang and Siemens. TD-SCDMA enables surfing the Internet at a speed of up to 2 Mbit/s, or almost as fast as a fast ADSL connection. TD-SCDMA allows supremely efficient use of the infrastructure. |
| ***TLE*** | TLE is the abbreviation of Telephone Line Extender which is a wireless telephone line extender. A TLE can facilitate the use of "Pay-Per-View" functions and proceed the use of other interactive services available for users of digital satellite receivers and set-top boxes. |
| ***Turnkey design*** | Turnkey design refers to a finished product ready to produce. As the word implies, the customer only needs to “turn a key” to start the product. |
| ***UMTS*** | Universal Mobile Telecommunications System (UMTS) is a third generation standard with a data capacity of up to 2 Mbit/s or approximately as fast as a fast ADSL connection. UMTS is a further development of GSM, one of the world's most used mobile telephony standards.<br><br>In various countries, several mobile operators have paid a great deal of money for UMTS licences. These operators hope that UMTS will enable them to launch a range of new interactive multimedia-based services, such as video conferencing, video on demand, and online route directions. |
| ***US-DECT*** | US-DECT is the 1.9 GHz DECT band which is the American counterpart to the European DECT system. US-DECT is also called DECT 6.0. |

# GLOSSARY

| Technical term | Explanation |
|---|---|
| ***USB*** | Universal Serial Bus (USB) is a communications link between a PC and other devices such as modems, scanners and printers. The advantage of USB is that it makes the devices virtually self-configuring as USB is integrated into Windows. |
| ***VDSL*** | VDSL (Very high speed Digital Subscriber Line) is a technique allowing for broadband linkage to the Internet via the ordinary telephone network. VDSL can offer speeds of approximately 100 Mbits/s and is a technology in the xDSL family such as ADSL. |
| ***VoIP*** | VoIP or "Voice over Internet Protocol" is a method or protocol employed to transfer speech via the Internet. |
| ***W-CDMA*** | Wideband Code Division Multiple Access is an optimisation of CDMA technology that also builds on technologies known from the GSM mobile telephony standard. |
| ***W-LAN*** | A Wireless Local Area Network (W-LAN) is a wireless LAN allowing several mobile users access to connect to the same network of the company or at home (and thereby share the same resources on the network - for instance a printer).<br><br>The different W-LAN standards are mainly specified by the Institute of Electrical and Electronics Engineers (IEEE) and are therefore called IEEE802.11 (subsequently called 802.11). The technology was primarily developed as replacement of the wired network and is also primarily intended for transmission of data - the IP protocol. 802.11 is an open standard and consists of a number of different standards. Some of the best known are 802.11a, 802.11b and 802.11g, though 802.11n begins to arrive on the scene. 802.11a is located on the 5 GHz frequency area whereas 802.11b and 802.11g are located in the 2.4 GHz frequency area - 802.11n can be located within both frequency areas.<br><br>802.11a is four times faster than 802.11b and offers a speed at a maximum of 54 Mbit/s over approx. 20-100 metres.<br><br>802.11b is the most widespread standard today and can transfer data wirelessly with a speed of a maximum of 11 Mbit/s over a distance of approx. 50-100 metres.<br><br>802.11g is almost as widespread as 802.11b and offers a speed at a maximum of 54 Mbit/s over approx. 20-100 metres.<br><br>802.11n is the most recent version of W-LAN and offers a speed of up to 540 Mbit/s over short distances. |
| ***W-PAN*** | Wireless Personal Area Network (W-PAN) is a network surrounding a person, and is used for wireless connection of products to each other. An example is a mobile telephone linked wirelessly to a headset. A personal network typically has a range of up to ten metres. Bluetooth is an example of a W-PAN technology. |
| ***W-WAN*** | Wireless Wide Area Network (W-WAN) is a wireless network that covers a large area. Typically, W-WAN is used to describe a mobile telephony network where the user is on one end and the antenna mast on the other. |
| ***WAP*** | Wireless Application Protocol (WAP) is a set of standardised communications rules used to allow mobile appliances such as mobile telephones to access special Web sites and e-mails. WAP also enables Internet access and a range of different services from a mobile telephone. |

# GLOSSARY

| Technical term | Explanation |
|---|---|
| ***WDCT*** | World Digital Cordless Telecommunication (WDCT) is a licence-free technology that makes it possible to speak wirelessly via an ordinary telephone connection. |
| ***Wi-Fi*** | Wi-Fi is an abbreviation of Wireless-Fidelty and covers the same term as W-LAN. The name is typically used in connection with the official Wi-Fi logo and indicates that the product functions with other products which are also Wi-Fi certified. |
| ***WLL*** | WLL (Wireless Local Loop) is the term for the connection between a household and the ordinary telephone network of the phone company. When using WLL a wireless link is used instead of the traditional copper wiring. |
| ***Xbox 360™*** | Xbox 360™ is a game console from Microsoft. The wireless controller gives the Xbox 360™ user the possibility of a wireless gaming experience at the same speed and reliability as with a fixed game connection. At the same time, the user will have full mobility around the house without being bound by cables. |
| ***ZigBee***™ | Zigbee™ is a wireless standard which is cheap and has low power consumption. With Zigbee™ it is possible to construct a network which can revolutionise the use of radio chips. Zigbee™ can for instance be used for building automation, including electrical and heat controls.<br><br>Zigbee™ is based on the wireless IEEE 802.15.4 standard and is more simple and cheap to operate than for instance W-LAN and Bluetooth. Zigbee™ was designed so that it is able to submit a limited volume of data at a speed of maximum 250k bps. |

This annual report contains statements on the future. These statements for instance comprise expectations or forecasts regarding events such as introduction of new products, product approvals and financial results. These statements might be influenced by risks, uncertainty factors and inaccurate assumptions, and consequently the actual development might be different from the expectations indicated. These risk and uncertainty factors include - though are not limited to include - a number of factors such as general business and financial conditions, dependence on co-operators, delivery times of components and exchange rate and interest rate fluctuations etc. Risk and uncertainty factors are further described in this annual report. RTX Telecom is not obligated to update the included statements on the future or to adjust such statements in relation to actual results, unless it is a statutory requirement.

The annual report for 2005/06 has been prepared in a Danish-language and an English-language version. The English-language version is a translation of the Danish-language version. In the event of any inconsistency between the Danish version and the English version, the Danish version shall prevail.