

BK Medical ApS

Mileparken 34, 2730 Herlev

CVR No. 15 73 11 76

Annual report for the year ended 31 July 2017

Adopted at the annual general meeting
on 15 December 2017


chairman

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Company details

BK Medical ApS
Mileparken 34
2730 Herlev
www.bkultrasound.com
Tel: +45 44 52 81 00

Supervisory board

David James Flanagan, chairman
John James Fry
Dorthe Lundby Pedersen
Jens Mose Pedersen
Steen Madsen

Executive board

Bo Hansen
Daniel Banemann

Parent

BK Medical Holding ApS
CVR No. 27 97 14 07

Auditors

Ernst & Young Godkendt Revisionspartnerselskab
Osvald Helmuths Vej 4, 2000 Frederiksberg, Denmark

Bankers

Danske Bank
Munkeengen 30
3400 Hillerød
Denmark

Statement by management on the annual report

Today, the Supervisory Board and the Executive Board have discussed and approved the annual report of BK Medical ApS for the financial year 1 August 2016 - 31 July 2017.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 July 2017 and of the results of its operations for the financial year 2016/17.

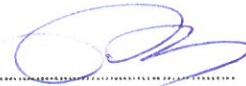
Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters and the results of the Company's operations and financial position.

We recommend the adoption of the annual report at the annual general meeting.


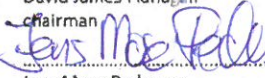
Herlev, ¹⁵ December 2017



Executive board:

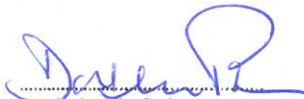

Bo Hansen


Daniel Banemann

Supervisory board:


David James Flanagan
Chairman

Jens Mose Pedersen


John James Finn

Steen Madsen


Dorthe Lundby Pedersen

Independent auditor's report

To the shareholders of BK Medical ApS

Opinion

We have audited the financial statements of BK Medical ApS for the financial year 1 August 2016 - 31 July 2017, which comprise an income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 July 2017 and of the results of the Company's operations for the financial year 1 August 2016 - 31 July 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Independent auditor's report

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- ▶ Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view. 

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Statement on the management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

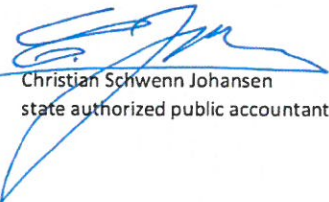
Based on our procedures, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

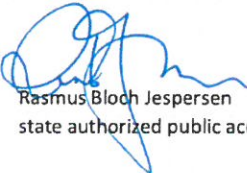
Copenhagen, 15 December 2017

ERNST & YOUNG

Godkendt Revisionspartnerselskab

CVR no. 30 70 02 28


Christian Schwenn Johansen
state authorized public accountant


Rasmus Bloch Jespersen
state authorized public accountant

Financial highlights

5-year summary:

	2016/2017	2015/16	2014/15	2013/14	2012/13
Key figures (in DKK thousands, except number of employee's data and ratios)					
Revenue	310.408	329.714	382.752	348.500	423.487
Gross profit	163.640	177.789	199.595	183.604	182.707
Profit/loss before net financials (EBIT)	13.927	30.056	-24.521	61.076	67.709
Net financials	935	3.218	-14.773	102	-5.019
Net profit/loss for the year	11.436	19.942	-47.523	48.895	47.537
Balance sheet					
Total assets	324.843	338.130	425.988	446.089	442.570
Equity at year-end	226.312	229.875	224.951	372.053	342.416
Investments in property, plant and equipment	10.465	8.836	2.604	7.719	6.077
Investments in intangible assets	17.216	20.230	14.436	29.533	38.591
Number of employees	129	137	146	148	150
Ratios					
Gross margin	52,7%	53,9 %	52,1 %	52,7 %	43,1 %
EBIT margin	4,5%	9,1 %	-6,4 %	17,5 %	16,0 %
Return on assets	4,3%	8,9 %	-5,8 %	13,7 %	15,3 %
Solvency ratio	69,7%	68,0 %	52,8 %	83,4 %	77,4 %
Return on equity	5,1%	8,7 %	-15,9 %	13,7 %	14,4 %

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015". For terms and definitions, please see the accounting policies.

Management's review

Main activity

BK Medical ApS develops and markets human diagnostic ultrasound equipment, primarily for the urological and surgical market segments and, secondarily, for selected point-of-care markets, general Imaging and other markets. The vision of the Company is to ensure profitable, organic growth exceeding the market growth of these niches, thus ensuring an increased market share. The products are being manufactured in the US by the ultimate parent company and other companies within the Analogic Group.

Development in the financial year

The Company's revenue for the financial year 2016/17 was DKK 310.4 million, a decrease of 5.9% from 2015/16 when revenue amounted to DKK 329.7 million. We expected the revenue for 2016/17 to be flat to low single digit organic growth. The decrease in revenue is primarily attributed to lower sales in our direct sales in both Europe and the USA, due to local conditions and change in the sales force.

The operating expenses for 2016/17 increased to DKK 149.7 million compared to an expense of DKK 147.7 million in 2015/16. This is in line with the expectation for the year.

In 2016/17, the Company realised a profit before tax of DKK 14.9 million compared to a profit before tax of DKK 33.3 million in 2015/16. The decrease is primarily attributed to the decrease in revenue mentioned above.

Tax for the year amounted to an expense of DKK 3.4 million in 2016/17 compared to an expense of DKK 13.3 million in 2015/16. Thus, for 2016/17, net profit for the year amounted to DKK 11.4 million compared to a net profit of DKK 19.9 million in 2015/16.

Even though we did not reach the revenue target set in last year annual report, the profit before tax is considered satisfactory.

Capital expenditure

The Company's capital expenditure amounted to DKK 10.5 million in property, plant and equipment compared to DKK 8.8 million last year and DKK 17.2 million in intangible assets compared to DKK 20.2 million last year.

Special risks – operating risks and financial risks

Foreign exchange risks

For a number of years, the Company has aimed at balancing its net positions (sales, purchases, operating expenses and financing expenses), primarily concerning USD, thus reducing the foreign exchange risk significantly. No forward hedging of exchange rate exposures on foreign exchange positions has been entered into.

The international activities of the Company entail that the results, cash flow and equity of the Company are affected by the development in exchange rates in respect of a number of currencies.

Management's review (continued)

Credit risks

The Company does not have any material risks relating to a single customer or business partner. According to company policy for assuming credit risks, all customers are credit rated periodically. Transactions with customers in the less mature geographical markets (e.g. Asia) are primarily hedged by a guaranteed form of payment.

Strategy and objectives

Strategy

The primary strategy of BK Medical ApS is to target the urological and surgical niches of the European, Asian and North American ultrasound markets by continuously developing and introducing new products that address these markets' needs. In addition, the Company is focused on gaining a foothold in adjacent procedure-driven markets. To support this strategy, the Company continues to strengthen its direct and indirect sales and distribution in the USA, Europe and China by expanding its sales organisation.

To enable profitable growth, the Company is leveraging the sourcing, manufacturing and administrative resources of its ultimate parent Company, Analogic Corporation.

Sales and marketing activities are carried out by the Company's subsidiaries in Germany, Italy, Sweden, Belgium, and the UK and through dealer networks, primarily in Eastern Europe, Latin America, the Middle East and Asia corresponding to approximately 50 countries. On an on-going basis, BK Medical ApS considers the possibilities of expansion of relevant niche solutions, including distribution form, through strategic cooperation alliances or through acquisitions. The organisation is developed continuously to adapt to changed conditions.

Target and expectations for the year ahead

As mentioned above, the competition on the overall ultrasound market is continuously increasing. This is expressed through more aggressive marketing and ultimately lower prices resulting in increased pressure on margins. At the same time, there are indications of a certain consolidation where only the large market participants are expected to endure in the long term. As expressed by our strategy, it is BK Medical ApS' plan to expand into other relevant niche areas in order to create a basis for adequate future growth. In addition to anaesthesia BK Medical ApS is establishing itself in other point-of-care segments and interventional ultrasound.

The forecast for 2017/18 shows revenue of flat to low single digit organic growth. This is a realistic target and it should be seen in the light of the investments in new products. The growth is primarily expected to take place in the existing core markets and the point-of-care markets as well as in the general ultrasound market.

The expectations are based on the assumption that the exchange rates for the currencies to which the Company is exposed will remain unchanged, mainly USD.

Management's review (continued)

Target and expectations for the year ahead (continued)

Costs are budgeted to decrease for 2017/18 compared to 2016/17, resulting in a higher EBIT Margin for 2017/18.

In 2016/17, capital expenditure increased compared to prior years. It is expected that the Company's level of capital expenditure in property, plant and equipment for 2017/18 will decrease since, this year, the Company invested substantially in new product platform for future ultrasound systems.

Furthermore, in 2016/17, capital expenditure related to intangible assets decreased compared to 2015/16. It is expected that the Company's level of capital expenditure in intangible assets for the coming period will be at the same level due to the continued investments in the new product platform for future ultrasound systems.

Basis of earnings

Research and development

Research and development is carried out by BK Medical ApS in Herlev for all ultrasound scanners. Expenses related to research and development activities increased by DKK 13.1 million in 2016/17 due to lower external funding for engineering projects and lower capitalisation of R&D projects compared to 2015/16. The strategic commitment to new markets with increased requirements to the products and their performance continues. These investments are primarily aimed at providing a new platform for future ultrasound scanners.

The majority of development activities are focused on the development of a brand-new generation of ultrasound scanners that will help open up new markets for BK Medical ApS.

Intellectual capital resources

Development, production and marketing of high technology ultrasound scanners demand highly skilled employees. Therefore, BK Medical ApS attaches great importance to recruiting, retaining and developing competent staff – e.g. through increased focus on the HR function and introduction of a common set of values.

Unusual events

There have been no unusual events in the fiscal year.

Corporate Social Responsibility

BK Medical ApS does not have a policy for corporate social responsibility and thereby no specific policies for human rights, environment and climate impact.

Management's review (continued)

Policy regarding the Proportion of Gender in other Management Levels of BK Medical ApS

BK Medical ApS is committed to continue working towards and maintaining equal opportunities for women and men at all management levels in the Company. BK Medical ApS encourages talented male and female employees to pursue a career in the Company. In connection with recruitment, including recruitment at management level, it is BK Medical ApS' policy to meet the Company's needs for employees with the right skills and competences, regardless of gender, age, ethnicity, etc. When choosing between equally qualified candidates, the diversity among the employees is taken into consideration, as it is the aim that both genders attain representation at management levels of at least 30%. In connection with recruitment for managerial positions it must be ensured, where possible, that the candidates invited for interview include both men and women. The Company's focus on diversity among its employees, including at management levels, must be visible during recruitment.

The policy may be amended by the Board of Directors and should be interpreted in accordance with applicable equal rights and anti-discrimination legislation in Denmark, applicable at any given time.

We currently have less than 30% representation of the gender with lowest proportion at manager level. We are however, on level with the general proportion of gender for the company. We follow our policy of not discriminating, when we hire for both management positions and regular employees. Since the proportion of each gender at manager level is consistent with the general proportion, no steps have been initiated this financial year.

Policy regarding the Proportion of Gender in the board of BK Medical ApS

The Company aims at continuing the current strategy as it is the policy of BK Medical ApS to meet the Company's needs for board members with the right skills and competences, regardless of gender, age, ethnicity, etc. When choosing between equally qualified candidates, the diversity among the employees is taken into consideration, as it is the objective that both genders attain representation at board level of at least 20%.

Further, the Company continuously aims at ensuring that the board supports the inter-company relations by means of its composition which is currently made up by 2 members elected by the employees and 3 members elected by the general meeting and who are also connected to the parent company: Chairman David James Flanagan; Director Dorthe Lundby Pedersen and Director John James Fry.

We currently have a minimum of 20% representation of each gender in the board, which falls within our policy, and therefore, no steps have been initiated this financial year.

Subsequent event

After the balance sheet date, no significant events have occurred which are considered to have a material effect on the assessment of the annual report.

Accounting policies

The annual report of BK Medical ApS has been prepared in accordance with the provisions of the Danish Financial Statements Act as regards large reporting class C enterprises.

Effective 1 August 2016, the Company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

1. Yearly reassessment of residual values and useful life time of property, plant and equipment and intangible assets
2. Reserve for development costs
3. Dividend from investments in subsidiaries

Re 1: Effective 1 August 2016, residual values and useful life time of property, plant and equipment and intangible assets are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment and intangible assets other than those relating to the Company's land. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions with future effect only as a change in accounting estimates with no impact on equity. The annual reassessment for 2016/17 did not affect the residual value compared to prior year.

Re 2: An amount corresponding to the recognized development costs net of deferred tax will effective 1 August 2016 be stated in the equity under equity in a reserve called "Reserve for development costs". This amount cannot be used to distribute dividend or cover losses. If the development costs recognised are sold or in some other way no longer form part of the Company's operations, the reserve will be dissolved or reduced by a transfer directly to distributable reserves under equity. If the recognised development costs are written down, part of the reserve for development costs must be reversed within equity. The reversed portion corresponds to the write-down of the development costs. If a write-down of the development costs is subsequently reversed, the reserve for development costs must be re-established. The reserve for development costs is also reduced by amortisation charges. Hereby, the equity reserve will not exceed the amount recognised in the balance sheet as development costs.

Re 3: Dividend from investments in subsidiaries must always be recognised in the income statement going forward. If the cost exceeds the carrying amount of the net assets of subsidiaries, or if dividend exceeding the profit for the year is distributed, there will be evidence of impairment, meaning that an impairment test must be conducted. Previously, dividend exceeding the subsidiary's accumulated earnings would be set off against cost.

None of the above changes affects the income statement or the balance sheet totals, or total equity for 2016/17 or the comparative figures. As a consequence of the policy change concerning 'Reserve for development costs', a reclassification of DKK 71,245 thousand between retained profit and the reserve for development cost have been made within equity at 1 August 2016. The comparative figures within equity have been restated in the balance sheet.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

Reporting currency

The financial statements are presented in '000 Danish kroner.

Accounting policies (continued)

Consolidated financial statements

With reference to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of BK Medical ApS and its group enterprises are included in the consolidated financial statements of the ultimate parent company Analogic Corporation, USA.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statement Act and to the cash flow statement included in the consolidated financial statement of Analogic Corporation, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised costs are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortization, provisions and reversals due to changed accounting estimates of amounts which were previously recognized in the income statement.

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

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

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

Certain financial assets and liabilities are measured at amortised cost, which involves the recognition of a constant effective interest rate over the maturity period. Amortised cost is calculated as original cost less any repayments and with addition/deduction of the cumulative amortisation of any difference between cost and the nominal amount. In this way, capital losses and gains are allocated over the maturity period.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

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

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

Accounting policies (continued)

Segment reporting

We identify a business as an operating segment if: i) it engages in business activities from which it may earn revenues and incur expenses; ii) its operating results are regularly reviewed by our chief operating decision maker who is our chief executive officer, and iii) it has available discrete financial information. We aggregate our operating segments into a reportable segment if the operating segments are determined to have similar economic characteristics and are similar in the nature of products and services, nature of production processes, type or class of customer for their products and services, product or service distribution method and, if applicable, nature of the regulatory environment. We have only one business segment: Ultrasound. For this reason, it is not relevant to provide segment information by business segment.

According to current statutory requirements, information on revenue is provided on geographical segments.

Income Statement

Revenue

Income from the sale of finished goods for resale and finished goods is recognised in revenue when transfer of the most significant rewards and risks to the buyer has taken place and provided that the income can be reliably measured and payment is expected to be received. The date of the transfer of the most significant rewards and risks is based on standardised terms of delivery based on Incoterms® 2010.

Revenue from the sale of services, comprising service contracts, is recognised in revenue on a straight-line basis as delivered as the services are delivered in the form of an indefinite number of actions over a specific period of time.

Revenue from software compensation is recognised as the company's IP assets are used.

Revenue is recognised exclusive of VAT and net of discounts relating to sales.

Cost of goods sold

Cost of goods sold comprises costs incurred to achieve revenue for the year. Cost comprises of materials, consumables, finished goods, goods for resale and depreciation etc. Moreover, amortisation of capitalised development cost is included.

Sales- and distribution expenses

Sales- and distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses, depreciation, etc.

Administrative expenses

Administrative expenses comprise expenses for management, administrative staff, office expenses, depreciation, etc.

Research- and development expenses

Development expenses comprise costs in the form of salaries to staff in the development department, research and development expenses that do not qualify for capitalization.

Accounting policies (continued)

Public grants

Public grants given to cover expenses are recognised in the income statement as a reduction of research and development costs when it is probable that the enterprise complies with all the terms of the grant. Grants given to purchase assets are set off against the cost of the asset concerned.

Financial income and expenses

Financial income and expenses comprise interest, realised and unrealised exchange adjustments, dividend from subsidiaries as well as interest on extra payments and repayment under the on-account taxation scheme.

Dividend from investments in subsidiaries is recognised in the income statement in the financial year when the dividend is declared.

Tax on profit/loss for the year

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

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

The Company is jointly taxed with the immediate Parent Company, BK Medical Holding ApS. The tax effect of the joint taxation is allocated to enterprises showing profits or losses in proportion to their taxable incomes (full allocation with credit for tax losses).

Interest on extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Balance Sheet

Intangible assets

On initial recognition, intangible assets are measured at cost.

Development costs related to the Company's development of hardware and software comprise costs, salaries and amortisation directly or indirectly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable, and where the technical feasibility, sufficient resources and a potential future market or development opportunities in the Company are evidenced, and where the Company intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs and administrative expenses and development costs. Other development costs are recognised in the income statement when incurred.

Accounting policies (continued)

Intangible assets (continued)

Development costs that are recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

The amortisation of development costs is based on an estimate of the financial useful life of the individual projects and is calculated on a straight-line basis over 5 years.

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Property, plant and equipment

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

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

Property, plant and equipment (continued)

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

Land	Not depreciated
Production building	40 years
Plant and machinery	3-7 years
Other fixtures and fittings,	
Tools and equipment	3-8 years

Depreciation is recognised in the income statement as cost of goods sold, sales- and distribution costs and administrative expenses, respectively.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Accounting policies (continued)

Impairment of fixed assets

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

If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount and the asset is written down to its lower recoverable amount. This impairment test is performed on an annual basis for development projects in progress irrespective of any indication of impairment. The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Cost includes the consideration measured at fair value plus direct purchase costs. Where cost exceeds the recoverable amount, write-down is made to this lower value.

Inventories

Inventories are measured at the lower of cost under standard cost method and net realisable value. Provisions are made for slow-moving and obsolete items. Goods for resale and consumables are measured at cost, comprising purchase price plus delivery costs.

The net realisable value of inventories is calculated as the sales amount less costs necessary to make the sale and is determined considering marketability, obsolescence and development in expected selling price.

Product is held by the sales force in the field both for sales and demonstration purposes. We classify and value such product based on the manner in which it is used by the sales force. Prior to fiscal 2016, demonstration inventory was amortized on a straight-line basis over a four year period. Beginning in fiscal 2016, we ceased amortization of demonstration inventory during the first year it was placed in the field, based on our ability and intent to sell such inventory at a normal profit margin. We implemented this policy prospectively in fiscal 2016 based on changes in how the demonstration inventory is being utilized in the field. To the extent that demonstration inventory is unsold after a period of a year, it is written down over its estimated remaining useful life of 36 months.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value.

Write-downs for estimated bad debts are determined, based on a specific evaluation of the receivables. Write-downs are calculated as the difference between the carrying amount of receivables and the present value of the expected cash flows, including the realisable value of any collateral received.

Prepayments

Prepayments comprise prepaid expenses concerning subsequent financial years. Prepayments include prepaid rent, insurance premiums, exhibitions and leasing etc.

Accounting policies (continued)

Cash

Cash comprise cash in banks.

Equity

Reserve for development costs

The reserve for development costs comprise recognized development costs, net of deferred tax. The reserve will be adjusted for the effect of amortization cost via appropriation of profit or loss. The reserve will be reduced or dissolved if the recognized development costs are no longer part of the Company's operations by transfer directly to the distributable reserves under equity. The reserve cannot be used to distribute dividends or cover losses.

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate item under equity.

Provisions

Provisions are recognised when, as a result of past events, the Company has a legal or constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation. Provisions are measured at net realisable value. If the obligation is expected to be settled far into the future, the obligation is measured at fair value.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes based on the intended use of the asset and settlement of the liability, respectively. Deferred tax assets, including the tax base of tax loss carry-forwards, are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax assets are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities.

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

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account.

Financial liabilities

Financial liabilities are measured at amortised cost, substantially corresponding to net realisable value.

Accounting policies (continued)

Deferred income

Deferred revenue is primarily comprised of maintenance and other service revenues for which payment has been received and for which services have not yet been performed. In situations where collection of the receivable is not reasonably assured, the inventory is expensed upon shipment and the revenue is recognized as the cash is received.

Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2015".

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Gross margin: $\text{Gross profit} / \text{Net revenue} * 100$

EBIT margin: $\text{Profit/loss before net financials (EBIT)} / \text{Net revenue} * 100$

Return on assets: $\text{Profit/loss before net financials} / \text{Total assets} * 100$

Solvency ratio: $\text{Equity} / \text{Total assets} * 100$

Return on equity: $\text{Net profit/loss for the year} / \text{Average equity in the year} * 100$

Income statement
for the year ended 31 July

	Notes	2016/2017 12 months DKK'000	2015/16 12 months DKK'000
Revenue	1	310.408	329.714
Cost of goods sold	2,7,8	<u>-146.767</u>	<u>-151.925</u>
Gross margin		163.640	177.789
Sales- and distribution expenses	2,8	-50.853	-58.086
Research- and development expenses	2,8	-81.873	-68.811
Administrative expenses	2,8	<u>-16.987</u>	<u>-20.836</u>
Profit/loss before net financials		13.927	30.056
Financial income	3	1.250	3.685
Financial expenses	4	<u>-315</u>	<u>-468</u>
Profit/loss before tax		14.862	33.273
Tax for the year	5	<u>-3.426</u>	<u>-13.331</u>
Net profit/loss for the year	6	<u><u>11.436</u></u>	<u><u>19.942</u></u>

**Balance sheet
at 31 July**

	Notes	2016/2017 12 months DKK'000	2015/16 12 months DKK'000
Assets			
Fixed assets			
Completed development projects		47.021	63.235
Development projects in progress		<u>41.873</u>	<u>28.117</u>
Intangible assets	7	<u>88.894</u>	<u>91.352</u>
Land and buildings		92.261	95.539
Plant and machinery		12.036	9.908
Other fixtures and fittings, tools and equipment		<u>5.152</u>	<u>3.624</u>
Property, plant and equipment	8	<u>109.449</u>	<u>109.071</u>
Investments in subsidiaries	9	18.583	18.583
Receivables from group enterprises	10	<u>7.587</u>	<u>7.588</u>
Investments		<u>26.170</u>	<u>26.171</u>
Total fixed assets		<u>224.513</u>	<u>226.594</u>
Current assets			
Inventories	11	<u>15.034</u>	<u>15.709</u>
Trade receivables		35.048	37.616
Receivables from group enterprises		22.981	30.344
Other receivables		3.909	2.852
Prepayments	12	<u>2.504</u>	<u>2.502</u>
Receivables		<u>64.442</u>	<u>73.314</u>
Cash		<u>20.854</u>	<u>22.513</u>
Total current assets		<u>100.330</u>	<u>111.536</u>
Total assets		<u>324.843</u>	<u>338.130</u>

**Balance sheet
at 31 July**

	Notes	2016/2017 12 months DKK'000	2015/16 12 months DKK'000
Equity and liabilities			
Equity			
Share capital		64.225	64.225
Reserve for development cost		69.328	71.245
Retained earnings		80.758	79.405
Proposed dividend for the year		<u>12.000</u>	<u>15.000</u>
Total equity	13	<u>226.311</u>	<u>229.875</u>
Provisions			
Provisions for deferred tax	14	<u>31.459</u>	<u>28.420</u>
Total provisions		<u>31.459</u>	<u>28.420</u>
Liabilities			
Other payables	15	2.508	3.605
Deferred income	16	<u>1.768</u>	<u>916</u>
Long-term liabilities		<u>4.276</u>	<u>4.521</u>
Trade payables		4.856	6.062
Payables to group enterprises		36.857	34.430
Corporation taxes		0	12.283
Other payables	15	19.606	21.538
Deferred income	16	<u>1.478</u>	<u>1.001</u>
Short-term liabilities		<u>62.797</u>	<u>75.314</u>
Total liabilities		<u>67.073</u>	<u>79.835</u>
Total equity and liabilities		<u>324.843</u>	<u>338.130</u>
Fees to the auditors appointed by the company in general meeting	17		
Contingent assets and liabilities and other financial obligations	18		
Related parties and ownership	19		
Subsequent events	20		

Notes

	2016/17 DKK'000	2015/16 DKK'000
Note 1. Revenue		
Segmentation of revenue on geographical area:		
Denmark	10.176	16.930
Scandinavia – other	10.049	11.892
Europe – other	73.936	81.281
USA	80.319	97.846
Asia, Pacific and rest of world	<u>135.929</u>	<u>121.765</u>
	<u><u>310.408</u></u>	<u><u>329.714</u></u>
Note 2. Staff costs		
Analysis of staff costs:		
Wages and salaries	99.317	98.171
Pension costs	6.603	7.524
Other social security costs	<u>1.750</u>	<u>1.693</u>
	107.670	107.388
Capitalized development cost	<u>-17.216</u>	<u>-20.230</u>
	<u><u>90.454</u></u>	<u><u>87.158</u></u>
Wages and Salaries, pensions, other social security expenses and other staff expenses are recognised in the following items:		
Cost of goods sold	7.775	7.356
Sales – and distribution expenses	22.548	26.447
Development expenses	51.875	45.178
Administrative expenses	<u>8.256</u>	<u>8.177</u>
	<u><u>90.454</u></u>	<u><u>87.158</u></u>
Salaries and fees paid to the executive and supervisory boards:		
Executive board	2.825	4.795
Supervisory board	<u>0</u>	<u>0</u>
Salaries and fees paid to the executive and supervisory boards	<u><u>2.825</u></u>	<u><u>4.795</u></u>
Average number of employees	<u><u>129</u></u>	<u><u>137</u></u>

The executive board and other selected individuals are part of the Analogic stock compensation plan.

Notes (continued)

	2016/17 DKK'000	2015/16 DKK'000
Note 3. Financial income		
Interest receivable, group enterprises	260	214
Dividend from group enterprises	0	2.382
Other interest receivable, exchange gains and similar income	<u>990</u>	<u>1.089</u>
	<u>1.250</u>	<u>3.685</u>
Note 4. Financial expenses		
Interest payable, exchange losses and similar expenses	51	137
Bank charges	<u>264</u>	<u>331</u>
	<u>315</u>	<u>468</u>
Note 5. Tax for the year		
Estimated income tax charge, excl. interest surcharges	0	0
Change in provision for deferred tax	<u>3.039</u>	<u>12.776</u>
	3.039	12.776
Prior year adjustments	<u>387</u>	<u>555</u>
	<u>3.426</u>	<u>13.331</u>
Note 6. Appropriation of profit/loss		
Profit/loss to be appropriated:		
The executive board recommends the following appropriation of the profit/loss:		
Proposed dividend for the year	12.000	15.000
Change to reserve for development costs due to amortization of capitalized development cost	-15,345	-15.042
Retained earnings/Accumulated loss	<u>14.781</u>	<u>19.984</u>
Total appropriation	<u>11.436</u>	<u>19.942</u>

Notes (continued)

Note 7. Intangible assets

	Completed development projects	Development projects in progress	Total
Cost			
Balance at 1/8 2016	129.405	28.117	157.522
Additions in the year	0	17.216	17.216
Transfers in the year	<u>3.460</u>	<u>-3.460</u>	<u>0</u>
Cost at 31/7 2017	<u>132.865</u>	<u>41.873</u>	<u>174.738</u>
Amortisation			
Balance at 1/8 2016	66.170	0	66.170
Amortisation in the year	<u>19.674</u>	<u>0</u>	<u>19.674</u>
Amortisation at 31/7-2017	<u>85.844</u>	<u>0</u>	<u>85.844</u>
Carrying amount at 31/7 2017	<u>47.021</u>	<u>41.873</u>	<u>88.894</u>
Amortised over	<u>5 years</u>		

Management has not identified any evidence of impairment relative to the carrying amount of capitalized development projects.

	2016/2017 DKK'000	2015/16 DKK'000
Amortisation of intangible assets is recognised in the following items:		
Cost of goods sold	<u>19.674</u>	<u>19.284</u>
	<u>19.674</u>	<u>19.284</u>

Notes (continued)

Note 8. Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings tools and equipment	Total
Cost				
Balance at 1/8 2016	136.664	42.579	18.785	198.028
Additions in the year	94	6.556	3.815	10.465
Disposals in the year	<u>0</u>	<u>7.180</u>	<u>2.478</u>	<u>9.658</u>
Cost at 31/7 2017	<u>136.758</u>	<u>41.955</u>	<u>20.122</u>	<u>198.835</u>
Depreciation				
Balance at 1/8 2016	41.125	32.671	15.161	88.957
Transfers in the year	0	0	0	0
Depreciation in the year	3.372	2.179	1.812	7.363
Depreciation of disposals and scrapped assets	<u>0</u>	<u>4.931</u>	<u>2.003</u>	<u>6.934</u>
Depreciation at 31/7 2017	<u>44.497</u>	<u>29.919</u>	<u>14.970</u>	<u>89.386</u>
Carrying amount at 31/7 2017	<u>92.261</u>	<u>12.036</u>	<u>5.152</u>	<u>109.449</u>

Management has not identified any evidence of impairment relative to the carrying amount of property, plant and equipment.

	2016/2017 DKK'000	2015/16 DKK'000
Depreciations of property, plant and equipment are recognised in the following items:		
Cost of goods sold	2.062	1.959
Sales – and distribution expenses	975	897
Development expenses	3.406	2.738
Administrative expenses	<u>920</u>	<u>985</u>
	<u>7.363</u>	<u>6.579</u>

Note 9. Investments subsidiaries

	Subsidiaries
Cost	
Balance at 1/8 2016	18.583
Additions of enterprises	<u>0</u>
Cost at 1/8 2017	<u>18.583</u>

Notes (continued)

Analysis of the company's results of operations and equity, according to the most recent financial statements:

	<u>Domicile</u>	<u>Currency</u>	<u>Nominal capital</u>	<u>Interest (%)</u>	<u>Equity</u>	<u>Net profit/loss</u>
Group enterprises						
BK Medical Systems, Inc.	USA	USD	679	100	50.889	18.701
BK Medical G.m.b.H	GER	EUR	3.731	100	13.777	2.900
BK Medical Benelux N.V.S.A	BEL	EUR	463	100	4.693	703
BK Medical S.r.l	ITA	EUR	1.978	100	3.607	237
BK Medical AB	SWE	SEK	236	100	8.110	823
BK Ultrasound Limited	UK	GBP	9.413	100	<u>7.582</u>	<u>221</u>
					<u>88.658</u>	<u>23.585</u>

In the section above the annual published report for 2015/16 were used for Germany, Belgium, Sweden, UK and Italy. USA is based of non-published numbers for 2015/16.

Note 10. Investments

	<u>Receivables from group enterprises</u>
Cost	
Balance at 1/8 2016	<u>7.600</u>
Cost at 31/7 2017	<u>7.600</u>
Currency revaluations	
Revaluations at 1/8 2016	-12
Revaluations in the year	<u>0</u>
Revaluations at 31/7 2017	<u>-12</u>
Carrying amount at 31/7 2017	<u>7.588</u>

2016/2017	2015/16
DKK'000	DKK'000

Note 11. Inventory

Raw materials and consumables	812	1.221
Finished goods and goods for resale	<u>14.222</u>	<u>14.487</u>
	<u>15.034</u>	<u>15.708</u>

Notes (continued)

	2016/2017 DKK'000	2015/16 DKK'000
Note 12. Prepayments		
Prepaid insurance premiums	699	699
Prepaid exhibitions	422	542
Other prepayments	<u>1.383</u>	<u>1.261</u>
	<u><u>2.504</u></u>	<u><u>2.502</u></u>

Note 13. Statement of changes in equity

	Share capital	Reserve for development cost	Retained earnings/ Accumulated loss	Proposed dividend	Total
Balance at 1/8 2016	64.225	0	150.650	15.000	229.875
Effect of change in accounting policies for development cost, net of deferred tax	<u>0</u>	<u>71.245</u>	<u>-71.245</u>	<u>0</u>	<u>0</u>
Adjusted balance at 1/8 2016	64.225	71.245	79.405	15.000	229.875
Exchange adjustment	0	0	0	0	0
Dividends distributed	0	0	0	-15.000	-15.000
Development cost capitalized in the year, net of deferred tax	0	13,428	-13,428	0	0
Transfer through appropriation of profit/loss	<u>0</u>	<u>-15,345</u>	<u>14,781</u>	<u>12,000</u>	<u>11,436</u>
Equity at 31/7 2017	<u><u>64.225</u></u>	<u><u>69.328</u></u>	<u><u>80.758</u></u>	<u><u>12.000</u></u>	<u><u>226.311</u></u>

The share capital consists of 64.225 shares of a nominal value of DKK 1.000. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

Notes (continued)

	2016/2017 DKK'000	2015/16 DKK'000
Note 14. Deferred tax provisions		
Deferred tax, primo	28.420	15.643
Adjustment of the deferred tax charge for the year	<u>3.059</u>	<u>12.777</u>
Deferred tax, ultimo	<u><u>31.459</u></u>	<u><u>28.420</u></u>
Deferred tax relates to:		
Intangible assets	19.298	19.580
Property, plant and equipment	2.621	2.149
Fixed assets investments	1.823	1.823
Trade receivable	-249	-396
Accruals	-1.473	-1.098
Loss carried forward	-1.346	-9.554
Other payables	<u>-494</u>	<u>-964</u>
	20.180	11.539
Accounting estimate for write down of deferred tax asset	<u>11.279</u>	<u>16.881</u>
	<u><u>31.459</u></u>	<u><u>28.420</u></u>

A tax rate of 22% has been applied to the statement of deferred tax both in the current and in the past year.

Note 15. Long-term liabilities

Of the long-term liabilities, DKK 0 thousand falls due for payment after more than 5 years after the balance sheet date.

Breakdown of certain liabilities by long-term and short-term liabilities:

	Falling due between 1 and 5 years	Falling due after more than 5 years	Total long-term liabilities at 31/7 2017	Falling due within 1 year	Total
Other payable	<u>2.508</u>	<u>0</u>	<u>2.508</u>	<u>19.606</u>	<u>22.114</u>
	<u>2.508</u>	<u>0</u>	<u>2.508</u>	<u>19.606</u>	<u>22.114</u>

Notes (continued)

Note 16. Deferred income

Deferred income is mainly relating to service contracts and of income where the revenue recognition criteria as to collectability has not been met.

	31/7 2017 DKK'000	31/7 2016 DKK'000
Note 17. Fees to the auditors appointed by the company in general meeting		
Fee for statutory audit	343	391
Fee for other assurance engagements	53	33
Fee for tax advice	69	34
Fee for non-audit services	<u>0</u>	<u>0</u>
	<u>465</u>	<u>458</u>

	2016/17 DKK'000	2015/16 DKK'000
Note 18. Contingent assets and liabilities and other financial obligations		
Rental agreements and leases		
Lease obligations under operating leases. Total future lease payments:		
Within a year	674	613
Between 1 and 5 years	<u>272</u>	<u>424</u>
	<u>946</u>	<u>1.037</u>

Contingent liabilities

Through its bankers, the Company has as per 31 July 2017 issued payment, advance and performance guarantees totaling DKK 31 thousand (2015/16: DKK 31 thousand).

The Danish group companies are jointly and severally liable for tax on the Group's jointly taxed for the income year 2016/17.

Notes (continued)

Note 19. Related parties

Transactions with related parties

The related parties transactions for 2016/17 are shown in the below. All amount are in TDKK.

Transactions	Parent	Group		Total
	companies	Companies	Subsidiaries	
Revenue	80.926	293	9.528	90.747
Cost of sales	-109.024	-388	220	-109.192
Cost reimbursement	2.745	-16.959	552	-14.214
Management fee	-3.703	0	0	-3.703
Stock options	-1.010	0	0	-1.010
Interest income	0	0	260	260
Dividends paid	-15.000	0	0	-15.000
Balance per July 31/07-2017				
Tax paid under joined taxation	-12.118	0	0	-12.118
Purchase for Fixed asset	-3.311	0	0	19.895

Controlling interest

Basis

Analogic Corporation
8 Centennial Drive
Peabody, MA 01960
USA

Ultimate parent company

Analogic Holding Luxembourg S.á.r.l.
5 rue Guillaume Kroll
1882 Luxembourg

Intermediate parent company

BK Medical Holding ApS
Mileparken 34
DK-2730 Herlev

Immediate parent company

Consolidated Financial Statements

The Company is included in the Consolidated Financial Statements of the Parent Company Analogic Corporation.

The Consolidated Financial Statements of Analogic Corporation may be obtained at the following address:

Analogic Corporation
8 Centennial Drive
Peabody, MA 01960
USA

Note 20. Subsequent events

After the balance sheet date, no significant events have occurred which are considered to have a material effect on the assessment of the Annual Report.