Lyngsoe Systems A/S
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Lyngsoe Systems A/S

Annual report 2015

The annual report was presented and approved at the Company's annual general meeting

on 30 March 2016

Per K. M. Andersen

chairman

CVR no. 17 70 27 85

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Lyngsoe Systems A/S for the financial year 1 January – 31 December 2015.

The annual report has been 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 assets, liabilities and financial position at 31 December 2015 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2015.

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

We recommend that the annual report be approved at the annual general meeting.

Aars, 7 March 2016
Executive Board:

Villads B. Thomsen

Board of Directors:

Jørgen Bardenfelth Chairman	Vilhelm Hahn-Petersen	Finn H. Mathiassen
Rasmus Philip Løkvig	Jesper Jarlbæk	Carsten N. Knudsen

KPMG
Statsautoriseret Revisionspartnerselskab
Bredskifte Allé 13
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Independent auditor's report

To the shareholders of Lyngsoe Systems A/S

Independent auditor's report on the financial statements

We have audited the financial statements of Lyngsoe Systems A/S for the financial year 1 January – 31 December 2015.

The financial statements comprise accounting policies, income statement, balance sheet, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

Management's responsibility 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 that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Danish audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of financial statements that give a true and fair view 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit has not resulted in any qualification.

Independent auditor's report

Opinion

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2015 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2015 in accordance with the Danish Financial Statements Act.

Statement on the Management's review

In accordance with the Danish Financial Statements Act, we have read the Management's review. We have not performed any further procedures in addition to the audit of the financial statements. On this basis, it is our opinion that the information provided in the Management's review is consistent with the financial statements.

Aarhus, 7 March 2016
KPMG
Statsautoriseret Revisionspartnerselskab

Henrik O. Larsen State Authorised Public Accountant	Steffen S. Hansen State Authorised Public Accountant

Management's review

Company details

Lyngsoe Systems A/S
Lyngsø Alle 3
9600 Aars

Telephone:	+45 9698 0980
CVR no.:	17 70 27 85
Established:	1 March 1994
Registered office:	Vesthimmerland
Financial year:	1 January – 31 December

Board of Directors

Villads B. Thomsen

Executive Board

Jørgen Bardenfleth
Vilhelm Hahn-Petersen
Finn H. Mathiassen
Rasmus Philip Lokvig
Jesper Jarlbæk
Carsten N. Knudsen

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Bredskifte Allé 13
8210 Aarhus V

Annual general meeting

The annual general meeting will be held on 30 March 2016.

Management's review

Financial highlights

DKK'000	Lyngsoe Systems Group**	Lyngsoe Systems A/S 2015	2013/14 (18 months)	2012/13*	2011/12*	2010/11*
Key figures						
Gross profit	145,206	107,849	159,675	113,625	108,776	87,866
EBITDA	15,423	9,454	12,172	11,057	13,546	-38
EBITDA, normalized	23,106	-	-	-	-	-
Operating profit	4,568	3,794	431	5,894	7,778	-5,745
Income from group entities	-	-144	-3,295	919	4,481	5,277
Earnings before tax	5,145	4,643	-6,762	5,163	10,052	-3,329
Profit/loss for the year	**3,842**	**3,244**	**-6,453**	**4,583**	**8,477**	**-1,386**
Non-current assets	122,013	51,047	50,366	49,752	49,784	46,871
Current assets	115,231	100,110	91,088	100,029	98,244	69,386
Total assets	**237,244**	**151,157**	**141,454**	**149,781**	**148,028**	**116,257**
Equity	**84,188**	**14,579**	**11,487**	**26,159**	**31,616**	**22,382**
Provisions	15,513	13,355	11,413	10,238	7,944	7,995
Non-current liabilities	18,777	14,777	13,397	15,059	16,256	17,234
Current liabilities	118,766	108,446	105,157	98,325	92,212	68,606
Net working capital	14,778	10,299	11,666	13,495	12,478	3,974
Net interest-bearing debt	49,109	40,342	44,872	43,703	39,583	38,543
Net cash flows before financing activities	4,400	4,352	11,024	-10,390	36	-2,294
Net cash flows	-1,654	5,910	-2,831	-5,317	-2,018	-13,284
Portion relating to investments in property, plant and equipment	445	445	384	2,510	1,001	4,470
Return on invested capital	1.9%	2.3%	0.3%	3.9%	5.3%	-4.9%
Solvency ratio	35.4%	9.6%	8.1%	17.5%	21.4%	19.3%
Return on equity	4.7%	24.9%	-34.3%	15.9%	31.4%	-5.2%
Average number of full-time employees	**189**	**145**	**150**	**163**	**148**	**140**

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

* The figures for 2010/11 and 2011/12 are aggregated figures for Lyngsoe Systems A/S and Lyngsoe Library Systems A/S. The figures for 2010/11, 2011/12 and 2012/13 are not adjusted for the merger with Lyngsoe Systems Holding A/S as the impact is not considered significant.

** Consolidated figures for Lyngsoe Systems Holding A/S, Parent Company of the Group.

Management's review

Operating review

Group Philosophy

Lyngsoe Systems has been a world leader in the field of cutting edge electronic logistics control for over 40 years and are leading within the radio frequency identification (RFID) technology. We are renowned for innovation, out-of-the-box thinking and the ability to put ideas into practice.

We offer best in class logistical solutions across the customer supply chain, offering real-time transparency, traceability and data capture to increase customer revenues, reduce OPEX and ensure quality

With a proven track record of more than 3,700 installations in 56 countries, the Lyngsoe Systems team can demonstrate extensive experience in customer process knowledge, solution design, software development, integration, service and maintenance. In addition, we offer complete project management and consultancy services in any local, regional or even global setting

More information can be found on the Group's website at www.lyngsoesystems.com

Main Activities of the Company

Lyngsoe Systems A/S focuses primarily on the following market segments:

- Postal & Logistics
- Library
- Controls
- Data capture

These market segments are serviced through following Business Units:

Postal & Logistics Solutions

Lyngsoe Postal & Logistics business unit help the world's postal services being successful in changing their business to match future demands. "Together we create the postal company of the future that will fulfil future customer requirements for quality and information on every item sent through the postal system." We address the following main trends by our postal customers: The need for new topline, cost cutting, increase of capacity and maintaining/improving of QofS. The turn key solutions range from full blown roll cage tracking solutions to process monitoring, mail volume forecasting, track'n'trace, sorting and automation and managing and tracking transport materials in general.

Management's review

Operating review

Library Solutions

Lyngsoe Library improves patron service and library efficiency by automating material handling of libraries globally by means of sortation, self-service and intelligent material management systems. By using Lyngsoe systems, heavy and/or time-consuming processes are automated enabling library staff to accomplish more patron-oriented tasks while improving the physical work environment at a reduced operating cost. From the largest institutional libraries to the smallest branches, Lyngsoe provides complete library automation solutions to meet the specific needs and requirements of the most modern way of operating today's libraries in a constantly changing educational and cultural environment.

Controls Solutions

Lyngsoe Controls has key knowledge of a broad variety of conveyor and sorter control systems and know what it takes to keep sorter performance at top level. Whether the need is a new sorter control solution or an upgrade of an existing system, the result is a platform that anticipates future developments ensuring your system will not become technologically outdated. Control systems upgrade and replacements, systems integration, VMware and control system analysis and design are just some of the systems and services provided. We design and supply control systems for one of the world leading system integrators within a broad variety of businesses from baggage sorting, parcels and letter bundles, to footwear, apparel, etc. Many of the companies using our solutions are among the Fortune 500 companies and face extensive logistical challenges.

Data Capture Solutions

Lyngsoe's Live Logistics platform allows customers and partners to take advantage of Lyngsoe's differentiating data capture technology. The platform reduces complexity and allows IT application to consume data through simplified interfaces and accessible in cloud set-ups. In addition to postal solutions the Lyngsoe Live Logistics platform is used in healthcare, airport and supply chain solutions.

Group Structure

The Company is structured as a matrix organization, the four business units constituting one dimension, and Marketing, Development/Delivery and Service, including Finance as a support function constituting the other dimension.

Lyngsoe Systems A/S has four active subsidiaries situated in Frederick, Maryland, USA; Toronto, Canada; Bucharest, Romania; Hamburg, Germany.

The former, intermediate company, Lyngsoe Systems Holding A/S in Denmark was merged with the Company with retrospective effect as of 1 January 2015. Following this merger, the ultimate holding company of the group changed its name from CC Track Holding A/S to its current name Lyngsoe Systems Holding A/S.

Management's review

Operating review

The purpose of the company in the USA is to sell and support our solutions in the North American continent. The company has established all necessary functions: sales, project execution, service and support. The majority of the projects are delivered from Lyngsoe Systems A/S in Denmark. The company in Canada works in the field of RFID-technology (Radio Frequency Identification) delivering high quality products, development and expertise. Besides that, the company supports our intensive marketing in the North American continent in cooperation with our subsidiary in the USA.

The company in Romania effectively discontinued its activities during 2015 and employees were transferred to another Romania company from which we continue to hire resources to assist in servicing our south Europa customers with repair, maintenance and service requests.

The company in Germany has as their primary purpose to serve the German market for library systems.

Takeover of the Company by the Danish Private Equity Fund, CataCap

In March 2014 Lyngsoe Systems Holding A/S and all affiliated subsidiaries including Lyngsoe systems A/S were taken over by CC Track Holding A/S, now Lyngsoe Systems Holding A/S (Parent Company).

The Parent Company, Lyngsoe Systems Holding A/S, is 73,6% owned by the Private Equity Fund, CataCap, whereas 26,4% is owned by a majority of the ceding company and by the group management. The purpose is to secure that everyone is committed to capitalize on the Company's possibilities and large potential.

CataCap is a member of DVCA (Danish Venture Capital and Private Equity Association). The Company and the Group behind it will strive to fulfil the guidelines issues by DVCA, even if at present the Group does not qualify as a large class C-company.

Development in Activities and Finance during 2015

During 2015, the Company continued the transformation towards being a more agile and balanced mix of product and project company. Product Development Activities were conducted at a high level, see the section "Product Development". Focus was on realigning the organization, increasing focus on customers and efficient execution and significant progress was made in this respect with launching and essentially completing Strategy 2.0. These activities improved our value offerings to customers and will positively impact in 2016.

Management's review

Operating review

Operating review (Group Level)

Regarding financial performance and development for the Lyngsoe System's Group reference is made to consolidated financial statements for Lyngsoe Systems Holding A/S. Financial highlights on page 6 includes the consolidated financial key figures for 2015, and following are highlighted from group level:

- The consolidated gross profit was 145.2 million DKK and EBITDA normalized for one off items totalling 7.7 million DKK amounted to 23.1 million DKK (EBITDA was 15.4 million DKK)
- Cash flow was in focus during 2015 and cash flow from operations became 12.9 million DKK, an improvement on previous year (15.0 MDKK), despite higher activity and high work-in-process on a major project.
- Equity ratio amounted to 35.4%, better than 33.7% at 31 December 2014.

Operating review (Lyngsoe Systems A/S)

Lyngsoe Systems A/S is the main group entity and the Company's gross profit was 107.8 million DKK versus 159.7 million DKK the previous (18 months) accounting period reflecting an underlying increase. EBITDA became 9.3 million DKK versus 12.2 million DKK the previous (18 months) accounting period. The result for 2015 is impacted operational issues, particularly in the Library business unit, cost increases on a significant project and other one off items. Corrected for this normalized EBITDA is significantly higher. Underlying, an improvement over the past accounting period was achieved.

After depreciation and amortization operating profit was 3.4 million DKK versus 0.4 million DKK the previous accounting period.

Result from subsidiaries is negatively impacted due to close down of activity in Romania. This is expected to have a positive effect on earnings going forward,

The profit for the year was 3.2 million DKK, which is considered fairly satisfactory.

Cash flow was in focus during 2015 and cash flow from operations became 12.6 million DKK, essentially on par with previous (18 months) accounting period (18.8 million DKKK). This was achieved at a higher level of activity and high work-in-process on a major project. After investments totalling 8.2 million DKK and net inflow from interest bearing loans of 0.7 million DKK, cash flow became 5.9 million, an improvement over -2.8 million DKK in the previous (18 months) accounting period.

Management's review

Operating review

Outlook

Due to the underlying improvement in operations, Management expects an increase in gross profit and results in 2016.

The outlook is based upon the continued implementation of the development plan which will continue to incur considerable costs for market, product and organizational development.

Product Development

The Group has maintained product development on a high level and has developed new products for most customer segments, including in particular Library, but also Post and Data Capture.

Besides that, the Group has invested a considerable amount of man-hours in our internal systems supporting the development of products and services.

Through the year, the Group spent a significant amount for market and product development. Product development partly takes place in cooperation with our clients and partly on our own accord based on our strategy to create a common, modular platform in order to secure scale and flexibility.

Consequently, we are enlarging our base of concepts and products with high knowledge content.

Incurred costs for our own internal development are recorded in the annual accounts with due consideration to the expected future economic return on investment, whereas development costs related to customer cooperation will be charged incrementally concurrently with the completion of the orders.

Corporate Social Responsibility

Corporate social responsibilities form an integrated part of group values and our business strategy. The Group has drawn up a corporate social responsibility policy, which has been presented to the employees. The CSR can be found on http://www.lyngsoesystems.com/en/company/csr/

Employees

Lyngsoe Systems A/S is distinctly a knowledge-based company. We have succeeded in creating continued development and growth by attracting and retaining competent and highly educated talents, including engineers with experience in developing advanced software solutions.

We continuously allocate considerable resources for process improvements aiming at increasing quality and efficiency. We invest considerable amounts in methods, processes as well as education and up-skilling of our employees. Thus, it is one of the goals of the Group to be and remain an attractive employer.

Again this year, our employees have made a great effort and acted with flexibility when required.

Management's review

Operating review

Human Rights

The Company recognizes the international human rights such as the right to education and the freedom of speech and secures that no discrimination based on race, religion or political opinion takes place. Management is not aware of any violation of the policy during 2015.

Environment

The Company recognizes the need for maintaining a sustainable environment and is committed to obey and follow local environment laws and regulations of the countries in which we operate. Management is not aware of any violation of the environment laws and regulations during 2015.

Anti-corruption

The Company recognizes the need to secure that we act according to high ethical standards and clearly forbid the participation in any kind of bribery or facility payments – both directly and indirectly. Furthermore, we provide guidance to employees on how to react if and when offered extraordinary gifts. Management is not aware of any violation of the anti-corruption policy during 2015.

Corporate Governance

Our Board and executive management constantly monitor the management structure and control systems of the Company and the Group to secure that they are appropriate and well-functioning.

The tasks of the management are based on the Danish Companies Act (Selskabsloven), the Danish Financial Statements Act (Årsregnskabsloven), the articles of association and the rules of procedure of the Board including guidelines for executive management. Further, the Group and the Company are, due to their status as a company partly owned by a Private Equity Fund, also subject to DVCA's code for responsible ownership and good corporate management. Based on this, a set of internal procedures have been developed and are continuously updated in order to secure active, safe and profitable governance.

The owner of the Company is Lyngsoe Systems Holding A/S, who is owned 73,6% by the Private Equity Fund, CataCap, 26,4% is owned by a majority of the previous majority shareholders and by management. As majority shareholder CataCap has dominant influence on the Company and the Group.

The composition of the Board is described in the annual report of Lyngsoe Systems Holding A/S, to which reference is made.

The Board assures that the executive management follows the defined objectives, strategies and business procedures. Feedback from executive management takes place systematically in meetings and through written and verbal reports. Furthermore, the banks of the Company and the Group are regularly informed. The Board considers that this, along with the internal procedures, provides for an adequate and effective risk management and appropriate internal controls.

Management's review

Operating review

Board meetings follow a fixed schedule with at least 5 annual meetings, one of which regards strategy where vision, goals and strategic plan are defined.

The chairmanship has a close and continuous dialogue with the daily management of the Company.

In order to attract and retain managerial talents and competence in the Group, the remuneration of the executive management and other managing staff is determined according to tasks, value creation and conditions in comparable companies and has an element of performance related fee.

Considering the size and complexity of the Company and the close dialogue between owners, Board, chairmanship and executive management, the Board has decided currently not to appoint an audit committee and no internal audit department has been established.

The Company and its subsidiaries are closely monitored by group finance who also, largely, handles financial management of subsidiaries and assures an appropriate degree of separation of functions.

Particular Risks

The company Board and executive management have a continuing dialogue about important circumstances in the Company and the Group, one element being risks with a potentially large influence on the Company. In the following, we state the important and identified risks that are being discussed and the corresponding mitigating measures initiated in the various areas.

Business Risk

The most important business related risk for the Company and the Group is still the ability to consistently and continuously deliver good service and produce high quality at competitive prices in the served markets. Today the Company mainly produces to order in the field of customized, high technology logistics solutions. However, we have an objective of developing module-based solutions to be offered to a wider audience regarding both customers and markets. The Company sources hardware from different suppliers, and we are continuously screening the market for alternative suppliers in order to secure independence and competitive purchasing prices.

Financial Risk

The Board and the executive management regularly evaluate whether the capital structure of the Company and the Group is in concordance with our overall targets and supports long term sustainable economic growth.

The Company is financed through its own capital with a solvency of over 30% at group level, as well as mortgage loans, overdraft facility, supplier credit, etc. Duration and interest risk are evaluated as appropriate for the Company and the Group. At the balance sheet date, the net interest-bearing debt was 41.3 million DKK which is evaluated to be an appropriate level in relation to the total balance (capital structure).

Management's review

Operating review

Foreign exchange and credit risks relating to commercial activities are either hedged or considered to be at an appropriately low level. Speculative foreign exchange positions are not concluded. The Company's activities are primarily carried out in Europe and Scandinavia where foreign exchange risks are evaluated at a low level and in the USA where currency risks are partly matched by sourcing hardware denominated in USD.

Events after the Balance Sheet Date

No events have occurred after the balance sheet date to this date that would influence the assessment and evaluation of this annual report in any substantial way.

Financial statements 1 January – 31 December

Accounting policies

The annual report of Lyngsoe Systems A/S for 2015 has been present in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year.

In accordance with section 112 of the Danish Financial Statements Act, consolidated financial statements have not been prepared. The financial statements of Lyngsoe Systems A/S and its subsidiaries are included in the consolidated financial statements of Lyngsoe Systems Holding A/S and CC Track Invest ApS.

As of 23 October 2015, the Company was merged with the Parent Company, Lyngsoe Systems Holding A/S, with retrospective effect from 1 January 2015. The pooling-of-interests-method was applied to the merger. Accordingly, the comparative figures have been restated.

Recognition and measurement

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

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and when the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

Certain financial assets and liabilities are measured at amortised cost implying the recognition of a constant effective interest rate to maturity. Amortised cost is calculated as initial cost minus any principal repayments and plus or minus the cumulative amortisation of any difference between cost and nominal amount.

When assets and liabilities are recognised and measured, any gains, losses and risks occurring prior to the presentation of the annual report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities measured at fair value or amortised cost. Equally, costs incurred to generate the year's earnings are recognised, including depreciation, amortisation, impairment losses and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognised in the income statement.

Financial statements 1 January – 31 December

Accounting policies

Foreign currency translation

At initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Non-current assets settled in foreign currencies are translated at the exchange rates at the transaction date.

All the Company's foreign subsidiaries are integral entities whose income statements are translated into Danish kroner at the average exchanges rate for the year and whose balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of opening equity of foreign subsidiaries at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates ruling at the balance sheet date are recognised directly in equity.

Income statement

Gross profit

In accordance with section 32 of the Danish Financial Statements Act, revenue, operating costs, and other external costs are comprised into the financial statement caption gross profit.

Revenue

Contract work in progress with a high degree of customisation are recognised as revenue by reference to the stage of completion. Accordingly, revenue corresponds to the selling price of work performed during the year (the percentage-of-completion method). When the selling price of a construction contract cannot be measured reliably, revenue is recognised to the extent costs incurred are deemed recoverable.

Operating costs

Operating costs are comprised by costs related to distribution, sales, advertising, administration, lease expenses, loss on debtors etc.

Financial statements 1 January – 31 December

Accounting policies

Staff costs

Staff costs comprise salaries and wages, including holiday allowance, pension and other social security costs, etc. to the Company's employees.

Profit/loss from investments in subsidiaries

The proportionate share of the results of the individual subsidiaries is recognised in the income statement of the parent company after full elimination of intra-group profits/losses.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, currency adjustments, and amortisation of financial assets.

Tax on profit/loss for the year

The Company is jointly taxed with its parent company. Current Danish tax is allocated between the jointly taxed Danish companies in proportion to their taxable incomes (full absorption).

The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprises current tax and changes in deferred tax for the year. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity. The recognised tax expense relating to the extraordinary profit/loss for the year is allocated to this item, whereas the remaining tax expense is allocated to profit/loss for the year from ordinary activities.

Balance sheet

Goodwill

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over the expected economic life assessed at 10 years.

Development costs

Costs of development at the Company's own expense are capitalised if the projects are clearly defined and identifiable, where the technical utilisation degree and a potential future market or development potential in the Company are evidenced. It is also required that the Company intends to produce, market or use the outcome of the project.

The cost of such projects includes direct wages and a share of the Company's indirect costs.

Financial statements 1 January – 31 December

Accounting policies

Capitalised development costs are amortised upon completion of the development work on a straight-line basis over the estimated useful lives. The amortisation period represents 3-5 years.

Development costs incurred in connection with specific customer projects are expensed in the financial statements.

Gains and losses on the disposal of development costs are determined as the difference between the sales price less disposal costs and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as amortisation.

Property, plant and equipment

Land and buildings, plant and machinery fixtures and fittings, other plant and equipment are measured at cost, added net revaluations and less accumulated depreciation and impairment losses. The basis of depreciation is cost, added net revaluations and less any expected residual value after the end of the useful life. Land is not depreciated.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub suppliers, and wages and salaries.

The basis of depreciation, which is calculated as cost less any residual value, is depreciated on a straight-line basis over the expected useful life. The expected useful lives are as follows:

Buildings	30 years
Fixtures and fittings, other plant and equipment	3-5 years
IT equipment and software	3 years

Investments not exceeding DKK 13 thousand are recognised as an expense in the year of acquisition.

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

Leases

On initial recognition, leases for non-current assets that transfer substantially all risks and rewards incident to ownership to the Company (finance leases) are recognised in the balance sheet at the lower of fair value and the net present value of future lease payments. When the net present value is calculated, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently depreciated as the Company's other non-current assets.

The capitalised lease obligation is recognised in the balance sheet as a liability at amortised cost, allowing the interest element of the lease payment to be recognised in the income statement over the term of the lease.

Financial statements 1 January – 31 December

Accounting policies

All leases are operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total obligation relating to operating leases and other leases is disclosed in contingent liabilities, etc.

Investments in subsidiaries

Balance sheet

Investments in subsidiaries are measured on the balance sheet at the proportionate share of the enterprises' net asset values calculated in accordance with the parent company's accounting policies minus or plus unrealised intra-group profits and losses and with the addition or deduction of positive or negative goodwill calculated in accordance with the transfer method.

Subsidiaries with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down by the parent company's share of the negative net asset value if the amount owed is considered irrecoverable. Where the negative net asset value exceeds the amount owed, the remaining amount is recognised under provisions if the parent company has a legal or constructive obligation to cover the enterprise's deficit.

Net revaluation of investments in subsidiaries is transferred to the reserve for net revaluation in equity according to the equity method to the extent that the carrying amount exceeds cost.

Positive balances (goodwill) between cost and fair value of the assets and liabilities taken over, including restructuring provisions, are recognised under investments in group enterprises and are amortised over their estimated useful lives, which are determined on the basis of the Management's experience within the individual business areas.

The amortisation period may not exceed 10 years and is longest for strategically acquired enterprises with strong market positions and long-term earnings profiles. The carrying amount of goodwill is regularly assessed and is written down in the income statement if the carrying amount exceeds projected future net income generated by the Company or the activity to which the goodwill relates.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials 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 of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in forecast sales price.

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Accounting policies

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a receivable portfolio has been impaired. If there is an objective indication that an individual receivable has been impaired, a write-down is made based on an individual assessment.

Contracts work in progress

Contract work in progress are measured at the selling price of the work performed less progress billings and anticipated losses. Contract work in progress entail a significant degree of design customisation of produced goods. Moreover, before the work is commenced, a binding agreement must have been entered into to the effect that penalties covering at least costs incurred will be enforced if the contract is subsequently terminated.

Contract work in progress also comprise standard components manufactured covered by the contracts entered into.

The selling price is measured by reference to the percentage of completion at the end of the reporting period and total expected income from the contract. The percentage of completion is determined on the basis of an assessment of the work performed, which is usually measured as the proportion of contract costs incurred for work performed to date relative to the total estimated contract costs.

When it is probable that the total contract costs will exceed the total contract revenue, the anticipated loss on the contract is recognised as an expense and a provision immediately.

When income and expenses on a construction contract cannot be estimated reliably, the selling price is measured corresponding only to costs incurred to the extent that it is probable that they will be recovered.

Where the selling price of work performed exceeds progress billings on contract work in progress and anticipated losses, the excess is recognised under receivables. If progress billings and anticipated losses exceed the selling price of a construction contract, the deficit is recognised under liabilities.

Prepayments from customers are recognised under liabilities.

Selling costs and costs incurred in securing contracts are recognised in the income statement when incurred.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

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Accounting policies

Equity

Net revaluation of investments in subsidiaries is recognised at cost in the reserve for net revaluation according to the equity method.

The reserve may be eliminated in case of losses, realisation of investments or a change in accounting estimates.

Transactions with treasury shares are recognised directly in the distributable reserves of equity. An amount corresponding to the cost of treasury shares is deducted from distributable reserves. The selling price on the disposal of treasury shares is added to distributable reserves.

Proposed dividends are recognised as a liability at the date on which they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item in equity.

Corporation tax and deferred tax

Current tax payable and receivable is recognised on the balance sheet as tax computed on the taxable income for the year adjusted for tax on the taxable income of prior years and for tax paid on account.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured on the basis of the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a setoff against deferred tax liabilities in the same legal tax entity.

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

Deferred tax is measured according to the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. The change in deferred tax as a result of changes in tax rates is recognised in the income statement.

Warranty provisions

Provisions comprise anticipated costs related to warranties, losses on work in progress, etc. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Warranties comprise obligations to make good any defects within the warranty period of 1-3 years. Provisions for warranties are measured and recognised on the basis of past experience.

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Accounting policies

If it is likely that total costs will exceed total income from contract work in progress, a provision is made for the total loss anticipated on the contract. The provision is recognised as costs in the income statement.

Liabilities other than provision

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprises payments received concerning income in subsequent years.

Cash flow statement

The cash flow statement shows the Company's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Company's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities are calculated as profit/loss for the year adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities comprise payments in connection with the acquisition and disposal enterprises and activities and acquisitions and disposals of intangible assets, property, plant and equipment and investments.

Cash flows from financing activities comprise changes in the size or composition of the Company's share capital and related costs as well as the raising of loans, repayment of interest-bearing debt and payment of dividends to shareholders.

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less, which are freely negotiable into cash and which are subject to an insignificant risk of changes in value.

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Accounting policies

Financial ratios

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios 2010".

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

Return on invested capital	$\frac{\text{Operating profit/loss x 100}}{\text{Average invested capital}}$
Invested capital	Operational intangible assets and property, plant and equipment as well as net working capital
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit/loss from ordinary activities after tax x 100}}{\text{Average equity}}$

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Income statement

DKK'000	Note	2015	2013/14 (18 months)
Gross profit		108,199	159,675
Staff costs	1	-98,395	-147,503
Amortisation, depreciation and impairment losses		-6,011	-11,741
Operating profit		3,793	431
Profit/loss from investments in subsidiaries		-144	-3,295
Financial income	2	2,627	624
Financial expenses	2	-1,633	-4,522
Profit/loss before tax		4,643	-6,762
Tax on profit/loss for the year	3	-1,399	309
Profit/loss for the year		3,244	-6,453

Proposed profit appropriation/distribution of loss		
Reserve for net revaluation according to the equity method	-1,431	-3,295
Retained earnings	4,675	-3,158
	3,244	-6,453

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Balance sheet

DKK'000	Note	2015	2014
ASSETS			
Non-current assets			
Intangible assets	4		
Goodwill		0	21
Development projects		16,252	12,227
		16,252	12,248
Property, plant and equipment	5		
Land and buildings		19,440	20,834
Fixtures and fittings, tools and equipment		1,869	2,366
		21,309	23,200
Investments			
Investments in subsidiaries	6	13,486	14,918
		13,486	14,918
Total non-current assets		51,047	50,366
Current assets			
Inventories			
Raw materials and consumables		3,009	4,283
		3,009	4,283
Receivables			
Trade receivables		58,114	60,420
Contract work in progress	7	31,688	20,648
Receivables from group entities		5,236	3,706
Other receivables		76	537
Tax receivables		1,317	0
Prepayments		670	579
		97,101	85,890
Cash at bank and in hand		0	915
Total current assets		100,110	91,088
TOTAL ASSETS		151,157	141,454

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Balance sheet

DKK'000	Note	2015	2013/14
EQUITY AND LIABILTIES			
Equity	8		
Share capital		2,189	2,189
Reserve for net revaluation according to the equity method		9,981	11,412
Reserve for net revaluation on buildings		5,949	5,949
Retained earnings		-3,540	-8,063
Total equity		14,579	11,487
Provisions			
Deferred tax	9	7,655	6,692
Warranty provisions		5,700	4,721
Total provisions		13,355	11,413
Liabilities other than provisions			
Non-current liabilities other than provisions	10		
Mortgage debt		14,637	13,397
Lease liability		140	0
		14,777	13,397
Current liabilities other than provisions			
Current portion of non-current liabilities other than provisions	10	928	1,098
Bank loans and overdrafts		25,565	32,390
Prepayments received from customers	7	22,420	15,931
Trade payables		14,233	15,235
Payables to group entities		11,304	9,212
Other payables		22,780	23,072
Deferred income		11,216	8,219
		108,446	105,157
Total liabilities other than provisions		123,223	118,554
TOTAL EQUITY AND LIABILITIES		151,157	141,454
Contractual obligations, contingencies, etc.	11		
Related party disclosures	12		

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Cash flow statement

DKK'000	Note	2015	2013/14 (18 months)
Profit/loss for the year		3,244	-6,453
Amortisation, depreciation and impairment losses		6,011	11,741
Income from investments in subsidiaries		144	3,295
Financial income and expenses		-994	3,898
Tax on profit for the year		1,399	-309
Cash generated from operations before changes in working capital, financial income/expenses and tax		9,804	12,172
Changes in working capital	13	1,885	8,127
Financial income		2,006	624
Financial expenses		-1,120	-3,236
Paid interest swap		0	1,157
Corporation tax paid		0	-75
Cash flows from operating activities		12,575	18,769
Capitalisation of development costs		-7,896	-7,364
Acquisition of tangible assets		-445	-384
Disposal of tangible assets		118	3
Cash flows from investing activities		-8,223	-7,745
Cash from change of mortgage debt, net		1,312	0
Repayment of mortgage debt		-595	-1,797
New leasing contract		419	0
Repayment of leasing liabilities		-140	0
Paid dividends		0	-15,000
Loans to/from group enterprises		562	3,740
Acquisition of own shares		0	-798
Cash flows from financing activities		1,558	-13,855
Net cash flows from operating, investing and financing activities		5,910	-2,831
Opening cash and cash equivalents, net		-31,475	-28,644
Closing cash and cash equivalents, net		-25,565	-31,475

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Notes

DKK'000	2015	2013/14 (18 months)
1 Staff costs		
Wages and salaries	87,665	129,716
Pensions	8,902	14,245
Other social security costs	1,828	3,542
	98,395	147,503
Average number of employees	145	150
Remuneration of Board of Directors and Executive Board	2,602	3,390

2 Financial income and expenses

Financial income from group entities totalled DKK 0 thousand (2013/14: DKK 343 thousand).

Financial expenses to group entities totalled DKK 82 thousand (2013/14: DKK 201 thousand).

DKK'000	2015	2013/14 (18 months)
3 Tax on profit/loss for the year		
Current tax for the year	0	75
Deferred tax adjustment for the year	963	1,294
Adjustment for tax prior year	436	0
	1,399	1,369
Which is specified as follows:		
Tax on profit/loss for the year	1,399	-309
Tax on changes in equity	0	1,678
	1,399	1,369

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4 Intangible assets

DKK'000	Goodwill	Finalised develop-ment projects	Develop-ment projects in progress	Total
Cost at 1 January 2015	740	28,177	4,451	33,368
Additions	0	3,415	4,481	7,896
Transfers	0	2,581	-2,581	0
Disposals	0	-1,767	0	-1,767
Cost at 31 December 2015	740	32,406	6,351	39,497
Amortisation and impairment losses at 1 January 2015	719	20,501	0	21,2200
Amortisation	21	3,394	0	3,415
Divested	0	-1,390	0	-1,390
Amortisation and impairment losses at 31 December 2015	740	22,505	0	23,245
Carrying amount at 31 December 2015	0	9,901	6,351	16,252

5 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Total
Cost at 1 January 2015	24,479	12,138	36,617
Additions	0	445	445
Disposals	0	-270	-270
Cost at 31 December 2015	24,479	12,313	36,792
Net revaluation at 1 January 2015	7,627	0	7,627
Net revaluation at 31 December 2015	7,627	0	7,627
Depreciation at 1 January 2015	11,272	9,772	21,044
Depreciation	1,394	905	2,299
Disposals	0	-233	233
Depreciation at 31 December 2015	12,666	10,444	23,1100
Carrying amount at 31 December 2015	19,440	1,869	21,309
Assets held under finance leases	0	315	315

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6 Investments in subsidiaries

DKK'000	Subsi-diaries
Cost at 1 January 2015	3,506
Disposals	-1
Cost at 31 December 2015	3,505
Value adjustments at 1 January 2015	11,412
Disposals	-26
Foreign exchange adjustment	-83
Loss for the year	-633
Changes in intra-group profit/loss	490
Adjustment of tax prior years	-1,179
Value adjustments at 31 December 2015	9,981
Carrying amount at 31 December 2015	13,486

Name and registered office	Stake	Share capital	Equity	Profit/loss for the year	Carrying amount
		DKK'000	DKK'000	DKK'000	DKK'000
Lyngsoe Systems Inc., USA	100%	74	1,648	-1,160	2,648
Lyngsoe Systems Ltd., Canada	100%	0	7,642	247	7,642
Lyngsoe Systems Development SRL,			2,441	-204	2,441
Romania	99%	110			
Lyngsoe Systems AG, Germany	100%	373	1,816	484	1,816
Lyngsoe Systems South Africa Ltd.	100%	-	-	-	0
Intra-group profit					-1,061
				-633	13,486

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DKK'000	2015	2013/14
7 Contract work in progress		
Sales value of work performed	72,578	86,128
Progress billings	-63,310	-81,411
	9,268	4,717
Recognised as follows:		
Contract work in progress (assets)	31,688	20,648
Contract work in progress (liabilities)	-22,420	-15,931
	9,268	4,717

8 Statement of changes in equity

DKK'000	Share capital	Reserve for net revaluation according to the equity method	Reserve for net revaluation on buildings	Retained earnings	Proposed dividends	Total
Equity at 1 January 2015	2,189	11,412	5,949	-8,063	0	11,487
Foreign exchange adjustments	0	0	0	-152	0	-152
Transferred, see the profit appropriation/distribution of loss	0	-1,431	0	4,675	0	3,244
Equity at 31 December 2015	2,189	9,981	5,949	-3,540	0	14,579

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8 Statement of changes in equity (continued)

DKK'000	2015	2013/14
The share capital is specified as follows:		
Nom. A shares	2,133	2,133
Nom. B shares	56	56
	2,189	2,189

The Company's number of treasury shares at 31 December 2015 represented a nominal value of DKK 12,550, amounting to 0.57% of the total share capital.

9 Deferred tax

Deferred tax liabilities concern deferred tax regarding net revaluation on buildings, contract work in progress, property, plant and equipment, provisions, prepayments, deferred income and tax loss carryforwards.

10 Mortgage credit institutions

DKK'000	Total debt at 31/12 2015	Repayment, initial year	Unpaid balance after 5 years
Mortgage debt	15,425	788	11,503
Leasing liability	280	140	0
	15,705	928	11,503

11 Contractual obligations, contingencies, etc.

Land and buildings with a carrying amount of DKK 19,440 thousand at 31 December 2015 have been provided as collateral for amounts owed to mortgage institutions of DKK 15,425 thousand.

A mortgage deed registered to the mortgagor of DKK 8,000 thousand secured on land and buildings has been registered as collateral for balance with Nordea Bank. The mortgage deed registered to the mortgagor is subordinated to mortgage debt.

A deed registered to the bank of DKK 25,000 thousand secured on mortgaged assets has been registered as collateral for balances with Nordea Bank. At 31 December 2015, mortgaged assets totalled DKK 101,309 thousand

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The Company has provided a negative pledge as collateral for all amounts owed to Nordea Bank by the Group.

The Company has provided payment and performance guarantees totalling DKK 11,614 thousand (2013/14: DKK 10,384 thousand) via its bank and other partners. The Company has provided joint and several guarantees at an amount of DKK 8,000 thousand for all amounts owed related to guarantees.

The Company is jointly taxed with other Danish companies in the Group. As a jointly taxed company which is wholly-owned, the Company has joint unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation unit. Any subsequent corrections of income subject to joint taxation or withholding taxes could result in an increased liability for the Company.

The Company has no disputes and lawsuits that could affect the Company's financial position at 31 December 2015.

The Company has entered into leases totalling DKK 120 thousand that all fall due within the initial year.

12 Related party disclosures

The following shareholders are registered in the Company's register of shareholders as holding a minimum of 5% of the votes or a minimum of 5% of the share capital:

Lyngsoe Systems Holding A/S, Østre Allé 42, 7., 2100 København Ø.

Catacap K/S holds the majority of the share capital in the Company through Lyngsoe Systems Holding A/S.

13 Changes in working capital

DKK'000	2015	2013/14
Changes in contract work in progress, net	-11,039	3,476
Changes in prepayments received	6,489	4,411
Changes in inventories	1,275	3,657
Changes in receivables	2,478	-12,799
Changes in trade payables and other capital	1,703	9,851
Changes in warranty provisions	979	-469
	1,885	8,127