Lyngsoe Systems

Lyngsoe Systems A/S

Lyngsø Alle 3
DK-9600 Aars

CVR No. 17 70 27 85

Annual report 2016

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

on 13-3 20 17

Per K M Andersen

chairman of the annual general meeting

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Contents

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 2016.

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 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016.

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, 20 February 2017
Executive Board:

Jens Villads
Bjerregaard Thomsen,
CEO

Board of Directors:

Jørgen Bardenfleth
Chairman

Rasmus P. B. Lokvig

Finn H. Mathiassen

Vilhelm
Hahn-Petersen

Jesper Jarlbæk

Carsten N. Knudsen

Independent auditor's report

To the shareholders of Lyngsoe Systems A/S

Opinion

We have audited the financial statements of Lyngsoe Systems A/S for the financial year 1 January – 31 December 2016 comprising income statement, balance sheet, statement of changes in equity, cash flow statement 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 Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

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.

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.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 made on the basis of these financial statements.

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

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

— obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the 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.

KPMG

Independent auditor's report

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 the work we have performed, 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.

Aalborg, 20 February 2017
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Henrik O. Larsen
State Authorised
Public Accountant

Steffen S. Hansen
State Authorised
Public Accountant

Management's review

Financial highlights

DKK'000	Lyngsoe Systems Group** 2016	Lyngsoe Systems A/S 2016	2015	2013/14 (18 mth)	2012/13*	2011/12*
Key figures						
Revenue	286,674	257,801	215,010	331,900	223,100	237,800
Gross profit	157,472	115,320	107,849	159,675	113,625	108,776
EBITDA	25,402	10,248	9,454	12,172	11,057	13,546
EBITDA, normalized***	28,426	-	-	-	-	-
Operating profit	14,833	4,788	3,794	431	5,894	7,778
Income from group entities	-	10,158	-144	-3,295	919	4,481
Earnings before tax	12,895	13,555	4,643	-6,762	5,163	10,052
Profit/loss for the year	**8,824**	**12,705**	**3,244**	**-6,453**	**4,583**	**8,477**
Fixed assets	118,242	60,463	51,047	50,366	49,752	49,784
Current assets	136,656	100,700	100,110	91,088	100,029	98,244
Total assets	**254,898**	**161,163**	**151,157**	**141,454**	**149,781**	**148,028**
Equity	**93,781**	**28,273**	**14,579**	**11,487**	**26,159**	**31,616**
Provisions	17,810	13,690	13,355	11,413	10,238	7,944
Non-current liabilities	17,982	13,982	14,777	13,397	15,059	16,256
Current liabilities	125,325	105,218	108,446	105,157	98,325	92,212
Net working capital	28,745	14,707	11,140	18,707	18,527	12,478
Net interest-bearing debt	48,329	39,584	40,342	44,872	43,703	39,583
Cash flows for the year	104	1,223	5,910	-2,831	-5,317	-2,018
Portion relating to investments in property, plant and equipment	1,017	348	445	384	2,510	1,001
Return on invested capital	24.8%	7.0%	5.8%	0.6%	8.9%	5.3%
Solvency ratio	36.8%	17.5%	9.6%	8.1%	17.5%	21.4%
Return on equity	9.9%	59.3%	24.9%	-34.3%	15.9%	31.4%
Average number of full-time employees	**189**	**152**	**145**	**150**	**163**	**148**

* The figures for 2011/12 are aggregated figures for Lyngsoe Systems A/S and Lyngsoe Library Systems A/S. The figures for 2011/12 and 2012/13 are not adjusted for the merger with Lyngsoe Systems Holding A/S as the impact is not considered significant. The revenue figures for 2011/12 and 2012/13 are before the elimination of internal revenue between Lyngsoe Systems A/S and Lyngsoe Library Systems A/S as the impact is not considered significant.

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

*** EBITDA, normalized, is adjusted for one-off (non-recurring) items of an exceptional or extraordinary nature

Management's review

Financial highlights

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 2015".

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	$\frac{\text{Profit/loss from ordinary activities after tax x 100}}{\text{Average equity}}$

Management's review

Operating review

Group Philosophy

Lyngsoe Systems has been a world leader in the field of cutting-edge electronic logistics control for more than 40 years and is 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 combining our capabilities with off the shelf components.

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 throughout the value chain.

With a proven track record of more than 3,900 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

The Lyngsoe Systems Group focuses primarily on the following market segments:

- Postal & Logistics
- Library
- Controls
- Data capture (Airports & Airlines, Healthcare)

These market segments are serviced through following Business Units:

Postal & Logistics Solutions

The Lyngsoe Postal & Logistics supports the world's postal services being successful in transforming their business to match current and future demands. We address the following main trends by our postal customers: The need for new top line, cost reduction, increase of capacity and maintaining/improving QofS (Quality of Service). We provide the needed data for the Postal & Logistic business through efficient data capture on our Lyngsoe Live Logistic platform. The platform reduces complexity and allows IT application to consume data through simplified interfaces. The data is used in a variety of different application systems, ranging from large BI solutions to Planning Systems, and provides the basis for running a smooth and efficient Postal & Logistics business.

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 we help solving the extensive logistical challenges they face.

Data Capture Solutions (Airports & Airlines, Healthcare)

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 applications to accumulate data through simplified interfaces and accessible in cloud set-up's. In addition to postal solutions the Lyngsoe Live Logistics platform is used in healthcare, airport & airlines as well as manufacturing and supply chain solutions.

Group Structure

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

The Company owns 100% of Lyngsoe Systems A/S and 1% of Lyngsoe Systems development SRL. This latter company is located in Bucharest, Romania and became dormant during 2016. We are currently in the process of a solvent liquidation, which will be finalised during 2017.

Management's review

Operating review

Lyngsoe Systems A/S owned by Lyngsoe Systems Holding A/S is the intermediate parent company and is located in Aars, Denmark. It has all of the four business units as well as the Marketing, Development/Delivery and Customer Service & Support and Shared Services (Finance, Business Services, IT etc.).

Lyngsoe Systems A/S has three active subsidiaries which are situated in Frederick, Maryland, USA; Toronto, Canada; and Hamburg, Germany.

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 Germany has as its primary purpose to serve the German market for library systems.

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

Lyngsoe Systems A/S was taken over by CC Track Holding A/S, now Lyngsoe Systems Holding A/S (Parent Company) in March 2014.

The Parent Company, Lyngsoe Systems Holding A/S, is 74% owned by the Private Equity Fund, CataCap, whereas 19% is owned by a majority of the ceding company and 7% by the group management.

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. More information about DVCA is found on http://dvca.dk.

Development in Activities and Finance during 2016

During 2016, the Company progressed 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 readdressing strategic goals and targets, continued high focus on customers and improving efficient execution. Tight financial control was exercised successfully.

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 2016, and the following is highlighted from group level:

— Consolidated gross profit was DKK 157.5 million and EBITDA normalized for one-off items totalling DKK 3.0 million amounted to DKK 28.4 million (EBITDA was DKK 25.4 million)

— Cash flow from operating activities amounted to DKK 7.3 million (2015: DKK 12.6 million) due to a higher level of activity and high work-in-process and receivable on major projects.

— Equity ratio amounted to 36.8%, up on 35.4% at 31 December 2015.

Operating review (Lyngsoe Systems A/S)

Lyngsoe Systems A/S is the main group entity, and the Company's gross profit was DKK 115.3 million as against DKK 107.8 million in 2015. EBITDA was DKK 10.3 million as against DKK 9.8 million in 2015.

After depreciation and amortisation, operating profit was DKK 4.8 million as against DKK 3.8 million for the previous accounting period.

Net result from subsidiaries amounts to DKK 10.2 million.

Profit for the year was DKK 12.7 million, which is considered satisfactory.

Cash flows from operating activities were negative at DKK 1.0 million as against DKK 12.6 million in 2015 due to at a higher level of activity and high work-in-process on a major project. After investments totalling DKK 3.2 million and net inflow from interest bearing loans of DKK 5.4 million, cash flow was DKK 1.2 million.

Management's review

Operating review

Outlook

Due to the strengthened market position in Data Capture and improvements in operations, Management expects an increase in gross profit and results in 2017.

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

Product Development

The Group has maintained product development at a high level and has developed new products for most customer segments, including in particular Data Capture, but also Post and Library. A break-through in the market was achieved through the xProduct platform brought to market in 2016. Further, in January 2017 it was made official, that Lyngsoe Systems won the Platinum Modern Library Award 2017 for the Library Mate™ 2100 exterior kiosk. The award is an unbiased program recognizing the elite products and services that serve the library industry all over the world and we are proud to have won the award.

Through the year, the Group has spent a significant amount on market and product development. Product development partly takes place in cooperation with our customers and partly on our own accord based on our strategy to create common, modular platforms in order to secure scale and flexibility. Increased efforts are planned for 2017 especially within the Postal and Logistics segments.

We therefore continue to enlarge 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.

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. The CSR can be found on http://www.lyngsoesystems.com/en/company/csr/

Management's review

Operating review

Employees

The Lyngsoe Systems Group 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. During 2016, we conducted the second Employee Satisfaction Survey and were pleased to see improvement over 2015. Nevertheless, areas for improvement remain and are being addressed with specific initiatives.

We recognize that our employees have made a great effort and acted with flexibility when required and this underlines the strength of the working environment.

Human Rights

The Group 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 2016.

Environment

The Group 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 2016.

Anti-corruption

The Group 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 2016.

Management's review

Operating review

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 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 Group is owned 74% by the private equity fund, CataCap, whereas 19% is owned by a majority of the ceding company and 7% by the group management. As majority shareholder, CataCap has dominant influence on the Company and the Group.

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.

Market 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. Partnerships are an integral part in accessing our Customers and Markets and we strive to nurture these relations. Our high end technologically capabilities provides assurance for our competitiveness, and we continuously monitor new technologies to maintain a state-of-the art value offering for our customers.

Product Risk

The Company mainly produces to order in the field of customized, high technology logistics solutions, however, during 2016; we supplied the first module-based solution within Data Capture and continued the sales of standard Library equipment and hardware. We remain committed to develop more module-based solutions to be offered to a wider audience regarding both customers and markets.

Management's review

Operating review

Credit Risk

The Company´s credit risks relate to trade receivables included in the balance sheet. The Company has a majority of customers with a public background and as such the risk is deemed small. Currently, the Company has one large customer who is being monitored carefully. The Company's credit risk policy involves assessing creditworthiness of all major customers and business partners. This is done on a regular basis.

IT Risk

We offer customers hosting and monitoring services and accordingly, high levels of IT security is paramount and we continuously ensure policies and practises provides assurance for this.

Sourcing Risk

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 accordance 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, 5 year acquisition 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, net interest-bearing debt was DKK 49.1 million DKK, which is deemed to be an appropriate level in relation to the total balance (capital structure).

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 the USA where currency risks are partly matched by sourcing hardware denominated in USD and in Europe where foreign exchange risks are evaluated at a low level.

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

Income statement

DKK'000	Note	2016	2015
Revenue		257,801	215,010
Direct costs		-111,862	-80,552
External costs		-30,619	-26,259
Gross profit		115,320	108,199
Staff costs	2	-105,073	-98,395
Amortisation and depreciation		-5,459	-6,011
Operating profit		4,788	3,793
Profit/loss from investments in subsidiaries		10,158	-144
Financial income		75	2,627
Financial expenses	3	-1,466	-1,633
Profit before tax		13,555	4,643
Tax on profit for the year	4	-850	-1,399
Profit for the year	5	12,705	3,244

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2016	2015
ASSETS			
Fixed assets			
Intangible assets	6		
Development projects		15,320	16,252
Property, plant and equipment	7		
Land and buildings		18,612	19,440
Fixtures and fittings, tools and equipment		1,899	1,869
		20,511	21,309
Investments			
Investments in subsidiaries		24,632	13,486
Total fixed assets		60,463	51,047
Current assets			
Inventories			
Raw materials and consumables		2,973	3,009
Receivables			
Trade receivables		52,944	58,114
Contract work in progress	9	37,455	31,688
Receivables from group entities		5,447	5,236
Other receivables		39	76
Tax receivables		509	1,317
Prepayments	10	1,333	670
		97,727	97,101
Total current assets		100,700	100,110
TOTAL ASSETS		161,163	151,157

Financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	2016	2015
EQUITY AND LIABILITIES			
Equity			
Share capital		2,189	2,189
Reserve for net revaluation according to the equity method		18,599	9,981
Reserve for net revaluation on buildings		4,828	5,949
Reserve for net revaluation on development projects		5,435	0
Retained earnings		-2,778	-3,540
Total equity		28,273	14,579
Provisions			
Deferred tax	11	8,486	7,655
Warranty provisions		5,204	5,700
Total provisions		13,690	13,355
Liabilities other than provisions			
Non-current liabilities other than provisions	12		
Mortgage debt		13,768	14,637
Lease liability		214	140
		13,982	14,777
Current liabilities other than provisions			
Current portion of non-current liabilities other than provisions	12	1,046	928
Bank loans and overdrafts		24,342	25,565
Prepayments received from customers	10	10,937	22,420
Trade payables		15,428	14,233
Payables to group entities		18,169	11,304
Other payables		23,922	22,780
Deferred income	13	11,374	11,216
		105,218	108,446
Total liabilities other than provisions		119,200	123,223
TOTAL EQUITY AND LIABILITIES		161,163	151,157

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Events after the balance sheet date	17

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Reserve for net revaluation according to the equity method	Reserve for development costs	Reserve for net revaluation on buildings	Retained earnings	Total equity
Equity at 1 January 2016	2,189	9,981	0	5,949	-3,540	14,579
Adjustment relating to change in accounting policies	0	0	0	-724	724	0
Addition of development projects during the year	0	-2,809	5,762	0	-2,953	0
Transferred over the profit appropriation/distribution of loss	0	10,438	-327	-397	2,991	12,705
Exchange rate adjustment, foreign subsidiary	0	989	0	0	0	989
Equity at 31 December 2016	2,189	18,598	5,435	4,828	-2,778	28,273

Financial statements 1 January – 31 December

Cash flow statement

DKK'000	Note	2016	2015
Profit for the year		12,705	3,244
Amortisation and depreciation		5,459	6,011
Income from investments in subsidiaries		-10,158	144
Financial income and expenses		1,391	-994
Tax on profit for the year		850	1,399
Cash generated from operations before changes in working capital		10,247	9,804
Changes in working capital	14	-10,671	1,885
Cash generated from operations		-424	11,689
Financial income		75	2,006
Financial expenses		-1,466	-1,120
Corporation tax paid/received		789	0
Cash flow from operating activities		-1,026	12,575
Capitalisation of development costs		-2,953	-7,896
Acquisition of property, plant and equipment		-348	-445
Disposal of property, plant and equipment		70	118
Cash flows from investing activities		-3,231	-8,223
Cash from change of mortgage debt, net		0	1,312
Repayment of mortgage debt		-866	-595
New lease contract		376	419
Repayment of lease liabilities		-187	-140
Loans to/from group entities		6,157	562
Cash flows from financing activities		5,480	1,558
Cash flows for the year		1,223	5,910
Opening cash and cash equivalents, net		-25,565	-31,475
Cash and cash equivalents at year end		-24,342	-25,565

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Lyngsoe Systems A/S for 2016 has been presented in accordance with the provisions applying to reporting class C medium-sized entities under the Danish Financial Statements Act.

As from 1 January 2016, the Company has implemented Act no. 738 of 1 June 2015.

This has entailed the following changes to policies relating to recognition and measurement:

— Going forward, the residual value of intangible assets and property, plant and equipment must be reassessed on an ongoing basis. Pursuant to the transition provisions of the Act, any adjustments to residual values must be made prospectively as an accounting estimate without restatement of comparative figures and without effect on equity.

— Going forward, an amount corresponding to the capitalised development costs will be tied to the restricted reserve "Reserve for development costs" under equity. The reserve cannot be used for dividend, distribution or to cover losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

— Going forward, the revaluation reserve under section 41 of the Danish Financial Statements Act to which fair value adjustments of property, plant and equipment and intangible assets are tied will be reduced by depreciation and amortisation. Previously, depreciation and amortisation were deducted from the Company's distributable reserves.

Apart from the above, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

Omission of consolidated financial statements

Pursuant to section 112(1) of the Danish Financial Statements Act, no consolidated financial statements have been prepared. The financial statements of Lyngsoe Systems A/S and group entities are included in the consolidated financial statements of Lyngsoe Systems Holding A/S, Lyngsø Alle 3 9600 Aars, CVR no. 25656946 and CC Track Invest ApS, Lyngsø Alle 3 9600 Aars, CVR no. 25656806.

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.

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1 Accounting policies (continued)

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.

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.

Fixed 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.

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1 **Accounting policies (continued)**

Income statement

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.

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.

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Notes

1 Accounting policies (continued)

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.

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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Land is not depreciated.

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 fixed 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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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 fixed 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.

Investments in subsidiaries

Balance sheet

Investments in subsidiaries are measured on the balance sheet at the proportionate share of the entities' 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 entities 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 entity'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 entities 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 entities 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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

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.

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Notes

1 Accounting policies (continued)

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.

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.

Reserve for development costs

The reserve for development costs comprises capitalised development costs. The reserve cannot be used for dividend, distribution or to cover losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established.

The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

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Notes

1 Accounting policies (continued)

Revaluation reserve
The revaluation reserve under section 41 of the Danish Financial Statements Act to which fair value adjustments of property, plant and equipment and intangible assets are tied will be reduced by depreciation and amortisation.

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.

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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Liabilities other than provisions

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 the 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 acquisitions and disposals of entities and activities, intangible assets, property, plant and equipment and investments.

Cash flows from financing activities comprise changes in size or composition of the Company's share capital and costs in this respect as well as raising of loans, instalments on interest-bearing debt and distribution of dividend to owners.

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

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	DKK'000	2016	2015
2	**Staff costs**		
	Wages and salaries	92,849	87,665
	Pensions	10,389	8,902
	Other social security costs	1,835	1,828
		105,073	98,395
	Average number of full-time employees	152	145
	Remuneration of Board of Directors and Executive Board	2,783	2,602

3 Financial expenses

Financial expenses to group entities totalled DKK 23 thousand (2015: DKK 82 thousand).

4	**Tax on profit for the year**		
	Deferred tax adjustment for the year	831	963
	Adjustment for tax prior year	19	436
		850	1399
	Which is specified as follows:		
	Tax on profit for the year	850	1,399
		850	1,399

5	**Profit appropriation**		
	Reserve for net revaluation according to the equity method	10,438	-1,431
	Reserve for net revaluation on buildings	-397	0
	Reserve for development costs	-327	0
	Retained earnings	2,991	4,675
		12,705	3,244

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6 Intangible assets

DKK'000	Goodwill	Finalised develop-ment projects	Develop-ment projects in progress	Total
Cost at 1 January 2016	740	32,406	6,351	39,497
Additions	0	668	2,285	2,953
Transfers	0	5,556	-5,556	0
Disposals	0	-20,793	0	-20,793
Cost at 31 December 2016	740	17,837	3,080	21,657
Amortisation and impairment losses at 1 January 2016	740	22,505	0	23,245
Amortisation	0	4,048	0	4,048
Divested	0	-20,956	0	-20,956
Amortisation and impairment losses at 31 December 2016	740	5,597	0	6,337
Carrying amount at 31 December 2016	0	12,240	3,080	15,320

Finalised development projects

Finalised development projects and development projects in progress relate mainly to the development of hardware for Library Solutions and development of software for Postal & Logistics solutions and Data Capture Solutions. The projects are amortised over five years. The projects in progress are expected to be completed within 1–2 years and to bring about considerable economic benefits.

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7 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Total
Cost at 1 January 2016	24,479	12,313	36,792
Additions	0	348	348
Disposals	0	-836	-836
Cost at 31 December 2016	24,479	11,825	36,304
Net revaluations at 1 January 2016	7,627	0	7,627
Net revaluations at 31 December 2016	7,627	0	7,627
Depreciation 1 January 2016	12,666	10,444	23,110
Depreciation	828	222	1,050
Disposals	0	-740	-740
Depreciation at 31 December 2016	13,494	9,926	23,420
Carrying amount at 31 December 2016	18,612	1,899	20,511
Assets held under finance leases	0	506	506

Carrying amount of net revaluations totals DKK 6,190 thousand

Financial statements 1 January – 31 December

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8 Investments

DKK'000	Invest-ments
Cost at 1 January 2016	3,505
Disposals	0
Cost at 31 December 2016	3,505
Value adjustments at 1 January 2016	9,981
Foreign exchange adjustment	988
Profit for the year	10,620
Changes in intra-group profit/loss	-462
Value adjustments at 31 December 2016	21,127
Carrying amount at 31 December 2016	24,632

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	8,228	2,504	4,767
Lyngsoe Systems Ltd., Canada	100%	0	20,880	6,256	16,753
Lyngsoe Systems Development			2,316	-302	2,316
SRL, Romania	99%	110			
Lyngsoe Systems AG, Germany	100%	373	2,232	425	2,232
Lyngsoe Systems South Africa			-	0	0
Ltd.	100%	-			
Intra-group profit/adjustments				1,275	-1,436
				10,158	24,632

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DKK'000	2016	2015
9 Contract work in progress		
Sales value of work performed	102,062	72,578
Progress billings	-75,544	-63,310
	26,518	9,268
Recognised as follows:		
Contract work in progress (assets)	37,455	31,688
Contract work in progress (liabilities)	-10,937	-22,420
	26,518	9,268

10 Prepayments

Prepayments of DKK 1,333 thousand (2015: DKK 670 thousand) comprise payments made that relate to the subsequent financial year.

11 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.

12 Mortgage credit institutions

DKK'000	Total debt at 31/12 2016	Repayment, initial year	Unpaid balance after 5 years
Mortgage debt	14,559	791	10,667
Lease liability	469	255	0
	15,028	1,046	10,667

13 Deferred income

Deferred income of DKK 11,374 thousand (2015: DKK 11,216 thousand) comprise payments received from customers that cannot be recognised until the subsequent financial year.

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14 Changes in working capital

DKK'000	2016	2015
Changes in contract work in progress, net	-5,768	-11,039
Changes in prepayments received	-11,483	6,489
Changes in inventories	35	1,275
Changes in receivables	4,546	2,478
Changes in trade payables and other capital	2,495	1,703
Changes in warranty provisions	-496	979
	-10,671	1,885

15 Contractual obligations, contingencies, etc.

Land and buildings with a carrying amount of DKK 18,046 thousand at 31 December 2016 have been provided as collateral for amounts owed to mortgage institutions of DKK 14,559 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 pledged assets has been registered as collateral for balances with Nordea Bank. At 31 December 2016, pledged assets totalled DKK 100,869 thousand

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 10,464 thousand (2015: DKK 11,614 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 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 that could affect the Company's financial position at 31 December 2016.

The Company has entered into leases totalling DKK 992 thousand that all fall due within the initial year.

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16 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, Lyngsø Alle 3, 9600 Aars

Oasen ApS, Kong Knuds Vej 10, 9600 Aars.

CataCap K/S controls the majority of the share capital in the Lyngsoe Systems Holding A/S through CC Track Invest A/S.

Related party transactions

The Company has no transactions that are not carried out on an arm's length basis in accordance with section 98c(7) of the Danish Financial Statements Act.

17 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.