

Ellab A/S

Trollesmindealle 25, DK-3400 Hillerød

Annual Report for 1 May 2016 - 30 April 2017

CVR No 20 89 69 49

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on

5¹⁹

Chairman



Contents

	<u>Page</u>
Management's Statement and Auditor's Report	
Management's Statement	1
Independent Auditor's Report	2
Management's Review	
Company Information	5
Financial Highlights	6
Management's Review	7
Consolidated and Parent Company Financial Statements	
Income Statement 1 May - 30 April	10
Balance Sheet 30 April	11
Statement of Changes in Equity	13
Cash Flow Statement 1 May - 30 April	14
Notes to the Financial Statements	15

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Ellab A/S for the financial year 1 May 2016 - 30 April 2017.

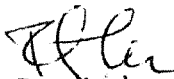
The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at 30 April 2017 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2016/17.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Hillerød, 13 June 2017

Executive Board

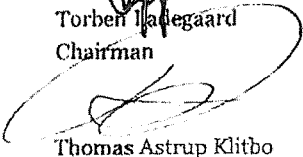


Peter Krogh
CEO

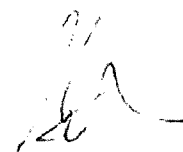
Board of Directors



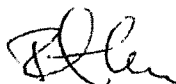
Torben Ladegaard
Chairman



Thomas Astrup Klitbo



Alireza Etemad



Peter Krogh



Dan Soundry



Michael Raldow

Independent Auditor's Report

To the Shareholder of Ellab A/S

Opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position of the Group and the Parent Company at 30 April 2017 and of the results of the Group's and the Parent Company's operations and of consolidated cash flows for the financial year 1 May 2016 - 30 April 2017 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Ellab A/S for the financial year 1 May 2016 - 30 April 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows ("the Financial Statements").

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 Group 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.

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the Financial Statements does not cover Management's Review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read Management's Review and, in doing so, consider whether 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 Management's Review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement in Management's Review.

Independent Auditor's Report

Management's responsibilities for the Financial Statements

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

In preparing the Financial Statements, Management is responsible for assessing the Group's and 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 Group or the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Statements

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

Independent Auditor's Report

audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Consolidated Financial Statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

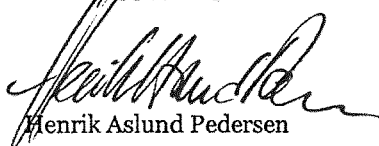
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Hillerød, 13 June 2017

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No. 33 77 12 31



Henrik Aslund Pedersen
statsautoriseret revisor

Company Information

The Company

Ellab A/S
Trollesmindealle 25
DK-3400 Hillerød

CVR No: 20 89 69 49
Financial period: 1 May - 30 April
Municipality of reg. office: Hillerød

Board of Directors

Torben Ladegaard, Chairman
Alireza Etemad
Dan Soundry
Thomas Astrup Klitbo
Peter Krogh
Michael Raldow

Executive Board

Peter Krogh

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Milnersvej 43
DK-3400 Hillerød

Financial Highlights

Seen over a five-year period, the development of the Group is described by the following financial highlights:

	Group				
	2016/17	2015/16	2014/15	2013/14	2012/13
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Profit/loss					
Gross profit/loss	144.117	131.943	114.994	94.976	88.148
Operating profit/loss	63.334	66.913	53.633	41.786	35.126
Net financials	-8	-462	1.999	-467	-106
Net profit/loss for the year	49.933	50.057	41.030	30.684	25.813
Balance sheet					
Balance sheet total	144.522	83.858	79.776	80.154	69.138
Equity	106.982	56.948	52.690	58.948	46.580
Cash flows					
Cash flows from:					
Investment in property, plant and equipment	6.085	4.506	4.009	1.245	3.176
Number of employees	121	109	102	95	87
Ratios					
EBITDA	67.887	70.269	55.729	44.479	38.438
Solvency ratio	74,0%	67,9%	66,0%	73,5%	67,4%
Return on equity	60,9%	91,3%	73,5%	58,2%	57,2%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

Consolidated and Parent Company Financial Statements of Ellab A/S for 2016/17 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Annual Report has been prepared under the same accounting policies as last year.

Key activities

Ellab is providing high end thermal validation and monitoring solutions and validation services to life science and food industries for applications where accurate and complete documentation is essential. The company designs, develop and manufactures high-precision equipment, and software for temperature, pressure and humidity validation and monitoring.

Market overview

Ellab handles sales and services by own sales companies in Denmark, Germany, UK, France, Netherlands, USA and Philippines. Other markets are handled through independent distributors.

Production, assembly, quality inspection and development takes place in the facility in Hillerød, Denmark.

Development in the year

The income statement for Group for 2016/17 shows a profit from operating activities of DKK 63.3m (2015/17 DKK 66.9m) and profit for the year of DKK 49.9m (2015/16 DKK 50.1m). Profit from operating activities are impacted by one-off expenses of DKK 10.7m.

The balance sheet at April 30th, 2017 of the Group shows equity of DKK 107.0m (2015/16 DKK 56.9m). Total assets amount to DKK 144.5m (2015/16 DKK 83.9m).

In 2016/17, the Group had a positive sales trend and following the Group's strategy for organic growth, significant investments in product development activities and market development have been made. During the year, the Group has invested further in direct markets in USA, Germany and Netherlands and Belgium.

Management's Review

Expectations from last year and development for the coming year

Except for the one-off expenses, the development in 2016/17 has been in line with expectations from last year.

The current activities of the group continue in 2017/18, and the management expects continued stable and positive sales development due to increasing market activity and continued introduction of new products.

In the coming year, the Group will continue the investment in product- and market development.

Special risks - operating risks and financial risks

Operating risks and financial risks

With activities around the world Ellab has the risks inherent in international activities, including currency risks.

The Group is not particularly exposed to changes in interest rates, as the debt ratio is low.

Research and development

The company continuously develops the products and processes but no real research takes place within the Group.

Impact of the external environment

The Group meets the environmental requirements in the legislation and works consciously and continuously tries to reduce the environmental impact from the operations.

Intellectual capital resources of importance for future earnings

The Group's policy is a continuous development of products and processes. It is therefore crucial that the Group in the future can attract and retain competent and motivated employees, including engineers.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

Management's Review

Unusual events

The financial position at April 30th, 2017 of the Company and the results of the activities and cash flows of the Group for the financial year for 2016/17 have not been affected by any unusual events.

On August 17th 2016, the previous owners of the Group signed an agreement regarding sale of Ellab A/S and subsidiaries to IK VIII Fund managed by IK Investment Partners. IK Investment Partners is a member of the organization for venture capital and private equity (DVCA).

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 May - 30 April

	Note	Group		Parent Company	
		2016/17	2015/16	2016/17	2015/16
		TDKK	TDKK	TDKK	TDKK
Gross profit/loss		144.117	131.943	98.962	82.139
Distribution expenses	1	-54.460	-42.024	-9.820	-8.898
Development expenses	1	-12.807	-9.974	-12.807	-9.974
Administrative expenses	1	-13.516	-13.032	-13.516	-13.032
Operating profit/loss		63.334	66.913	62.819	50.235
Profit/loss before financial income and expenses		63.334	66.913	62.819	50.235
Income from investments in subsidiaries		0	0	58	11.051
Financial income		182	28	182	28
Financial expenses		-190	-490	-169	-462
Profit/loss before tax		63.326	66.451	62.890	60.852
Tax on profit/loss for the year	2	-13.393	-16.394	-12.957	-10.795
Net profit/loss for the year		49.933	50.057	49.933	50.057

Balance Sheet 30 April

Assets

	Note	Group		Parent Company	
		2016/17	2015/16	2016/17	2015/16
		TDKK	TDKK	TDKK	TDKK
Completed development projects		1.596	2.784	1.596	2.784
Goodwill		1.124	0	0	0
Development projects in progress		1.041	94	1.041	94
Intangible assets	3	3.761	2.878	2.637	2.878
Plant and machinery		5.375	2.664	1.190	1.114
Other fixtures and fittings, tools and equipment		5.232	5.192	2.518	2.774
Leasehold improvements		238	352	237	352
Property, plant and equipment	4	10.845	8.208	3.945	4.240
Investments in subsidiaries	5	0	0	22.661	26.288
Deposits	6	1.658	2.007	1.611	1.989
Fixed asset investments		1.658	2.007	24.272	28.277
Fixed assets		16.264	13.093	30.854	35.395
Raw materials and consumables		7.101	7.045	7.102	7.045
Finished goods and goods for resale		9.185	7.999	4.279	2.845
Inventories		16.286	15.044	11.381	9.890
Trade receivables		31.654	29.207	4.916	5.675
Receivables from group enterprises		0	0	27.980	11.227
Other receivables		973	550	278	174
Deferred tax asset	9	4.176	269	1.338	355
Prepayments	7	1.319	815	462	215
Receivables		38.122	30.841	34.974	17.646
Cash at bank and in hand		73.850	24.880	53.663	12.369
Current assets		128.258	70.765	100.018	39.905
Assets		144.522	83.858	130.872	75.300

Balance Sheet 30 April

Liabilities and equity

	Note	Group		Parent Company	
		2016/17	2015/16	2016/17	2015/16
		TDKK	TDKK	TDKK	TDKK
Share capital		15.000	15.000	15.000	15.000
Reserve for net revaluation under the equity method		0	0	19.304	22.931
Reserve for development costs		739	0	739	0
Retained earnings		91.243	41.948	71.939	19.017
Equity		106.982	56.948	106.982	56.948
Other provisions	10	6.905	50	100	50
Provisions		6.905	50	100	50
Credit institutions		80	124	0	0
Prepayments received from customers		19	37	0	0
Trade payables		3.603	2.067	2.848	1.805
Corporation tax		9.918	11.045	11.962	8.970
Other payables		17.015	13.587	8.980	7.527
Short-term debt		30.635	26.860	23.790	18.302
Debt		30.635	26.860	23.790	18.302
Liabilities and equity		144.522	83.858	130.872	75.300
Distribution of profit	8				
Contingent assets, liabilities and other financial obligations	13				
Accounting Policies	14				

Statement of Changes in Equity

	Share capital	Reserve for net revaluation under the equity method	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Group					
Equity at 1 May	15.000	0	0	38.321	53.321
Exchange adjustments	0	0	0	101	101
Development costs for the year	0	0	739	-739	0
Net profit/loss for the year	0	0	0	53.560	53.560
Equity at 30 April	15.000	0	739	91.243	106.982
Parent Company					
Equity at 1 May	15.000	22.931	0	19.017	56.948
Exchange adjustments	0	0	0	101	101
Development costs for the year	0	0	739	-739	0
Net profit/loss for the year	0	-3.627	0	53.560	49.933
Equity at 30 April	15.000	19.304	739	71.939	106.982

Cash Flow Statement 1 May - 30 April

	Note	Group	
		2016/17	2015/16
		TDKK	TDKK
Net profit/loss for the year		49.933	50.057
Adjustments	11	19.380	19.046
Change in working capital	12	7.182	-5.880
Cash flows from operating activities before financial income and expenses		76.495	63.223
Financial income		182	28
Financial expenses		-190	-108
Cash flows from ordinary activities		76.487	63.143
Corporation tax paid		-18.427	-14.991
Cash flows from operating activities		58.060	48.152
Purchase of intangible assets		-2.212	-1.486
Purchase of property, plant and equipment		-7.408	-4.170
Sale of property, plant and equipment		226	0
Deposits		349	-24
Cash flows from investing activities		-9.045	-5.680
Repayment of loans from credit institutions		-45	-76
Dividend paid		0	-45.000
Cash flows from financing activities		-45	-45.076
Change in cash and cash equivalents		48.970	-2.604
Cash and cash equivalents at 1 May		24.880	27.484
Cash and cash equivalents at 30 April		73.850	24.880
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		73.850	24.880
Cash and cash equivalents at 30 April		73.850	24.880

Notes to the Financial Statements

	Group		Parent Company	
	2016/17	2015/16	2016/17	2015/16
	TDKK	TDKK	TDKK	TDKK
1 Staff				
Wages and Salaries	60.859	50.802	34.341	33.544
Pensions	2.700	2.276	2.292	2.154
Other social security expenses	2.525	2.796	222	258
	66.084	55.874	36.855	35.956
Wages and Salaries, pensions and other social security expenses are recognised in the following items:				
Cost of sales	24.247	15.231	16.618	15.231
Distribution expenses	28.815	26.760	7.215	6.842
Development expenses	10.812	9.390	10.812	9.390
Administrative expenses	2.210	4.493	2.210	4.493
	66.084	55.874	36.855	35.956
Average number of employees	121	109	72	69

Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act.

2 Tax on profit/loss for the year

Current tax for the year	17.301	16.302	13.940	10.669
Deferred tax for the year	-3.908	92	-983	126
	13.393	16.394	12.957	10.795

Notes to the Financial Statements

3 Intangible assets

Group	Completed development projects	Goodwill	Development projects in progress
	TDKK	TDKK	TDKK
Cost at 1 May	12.993	0	94
Additions for the year	0	1.265	947
Cost at 30 April	12.993	1.265	1.041
Transfers for the year	0	0	0
Revaluations at 30 April	0	0	0
Impairment losses and amortisation at 1 May	10.209	0	0
Amortisation for the year	1.188	141	0
Impairment losses and amortisation at 30 April	11.397	141	0
Carrying amount at 30 April	1.596	1.124	1.041

To meet the increasing demand for specialized validation and monitoring solutions with-in the food, pharma and healthcare industries Ellab A/S continuously develop products and processes to replace and supplement the range of products the company offers today.

When projects are completed and taken into production, the projects are depreciated over a three years period. If the value is impaired, the book value will be written off.

Notes to the Financial Statements

3 Intangible assets (continued)

Parent Company

	Completed development projects <u>TDKK</u>	Development projects in progress <u>TDKK</u>
Cost at 1 May	12.993	94
Additions for the year	<u>0</u>	<u>947</u>
Cost at 30 April	<u>12.993</u>	<u>1.041</u>
Impairment losses and amortisation at 1 May	10.209	0
Amortisation for the year	<u>1.188</u>	<u>0</u>
Impairment losses and amortisation at 30 April	<u>11.397</u>	<u>0</u>
Carrying amount at 30 April	<u>1.596</u>	<u>1.041</u>

4 Property, plant and equipment

Group

	Plant and machinery <u>TDKK</u>	Other fixtures and fittings, tools and equipment <u>TDKK</u>	Leasehold improvements <u>TDKK</u>
Cost at 1 May	6.895	14.934	2.466
Exchange adjustment	7	-75	0
Additions for the year	4.050	1.997	38
Disposals for the year	<u>-382</u>	<u>-933</u>	<u>0</u>
Cost at 30 April	<u>10.570</u>	<u>15.923</u>	<u>2.504</u>
Revaluations at 1 May	0	0	0
Revaluations at 30 April	<u>0</u>	<u>0</u>	<u>0</u>
Impairment losses and depreciation at 1 May	4.231	9.742	2.114
Exchange adjustment	-2	-59	0
Depreciation for the year	1.292	1.771	152
Impairment and depreciation of sold assets for the year	<u>-326</u>	<u>-763</u>	<u>0</u>
Impairment losses and depreciation at 30 April	<u>5.195</u>	<u>10.691</u>	<u>2.266</u>
Carrying amount at 30 April	<u>5.375</u>	<u>5.232</u>	<u>238</u>

Notes to the Financial Statements

4 Property, plant and equipment (continued)

Parent Company

	Plant and machinery	Other fixtures and fittings, tools and equipment	Leasehold improvements	Total
	<u>TDKK</u>	<u>TDKK</u>	<u>TDKK</u>	<u>TDKK</u>
Cost at 1 May	3.296	9.812	2.466	15.574
Additions for the year	<u>429</u>	<u>754</u>	<u>38</u>	<u>1.221</u>
Kostpris at 30 April	<u>3.725</u>	<u>10.566</u>	<u>2.504</u>	<u>16.795</u>
Impairment losses and depreciation at 1 May	2.182	7.038	2.114	11.334
Depreciation for the year	<u>353</u>	<u>1.010</u>	<u>153</u>	<u>1.516</u>
Impairment losses and depreciation at 30 April	<u>2.535</u>	<u>8.048</u>	<u>2.267</u>	<u>12.850</u>
Carrying amount at 30 April	<u>1.190</u>	<u>2.518</u>	<u>237</u>	<u>3.945</u>

Notes to the Financial Statements

	Parent Company	
	2016/17	2015/16
	TDKK	TDKK
5 Investments in subsidiaries		
Cost at 1 May	3.357	2.612
Additions for the year	0	745
Cost at 30 April	<u>3.357</u>	<u>3.357</u>
Value adjustments at 1 May	22.931	19.070
Exchange adjustment	104	-799
Net profit/loss for the year	58	11.051
Dividend to the Parent Company	-3.348	-5.968
Other adjustments	-441	-423
Value adjustments at 30 April	<u>19.304</u>	<u>22.931</u>
Carrying amount at 30 April	<u>22.661</u>	<u>26.288</u>

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership	Equity	Net profit/loss for the year
Ellab Inc.	USA	100%	3.770	-8.720
Ellab (U.K) Limited	England	100%	4.351	726
Ellab GmbH	Tyskland	100%	12.767	7.949
Ellab SARL	Frankrig	100%	-251	442
Ellab Philippines Corp.	Filippinerne	100%	1.526	-118
Ellab Benelux	Holland	100%	247	-221

6 Other fixed asset investments

	Group	Parent Company
	Deposits	Deposits
	TDKK	TDKK
Cost at 1 May	2.007	1.989
Disposals for the year	-349	-378
Cost at 30 April	<u>1.658</u>	<u>1.611</u>
Carrying amount at 30 April	<u>1.658</u>	<u>1.611</u>

Notes to the Financial Statements

7 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

	Parent Company	
	2016/17	2015/16
	TDKK	TDKK
8 Distribution of profit		
Proposed dividend for the year	0	35.000
Reserve for net revaluation under the equity method	-3.627	3.861
Retained earnings	53.560	11.196
	49.933	50.057

	Group		Parent Company	
	2016/17	2015/16	2016/17	2015/16
	TDKK	TDKK	TDKK	TDKK
9 Deferred tax asset				
Deferred tax asset at 1 May	269	361	355	481
Amounts recognised in the income statement for the year	3.907	-92	983	-126
Deferred tax asset at 30 April	4.176	269	1.338	355

10 Other provisions

Other provisions	6.905	50	100	50
	6.905	50	100	50

The Company provides warranties of 1 to 5 years on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns and an increasing market activity, other provisions are accrued with TDKK 100 (2015/16 T.DKK 50). Further other provisions include provision for one-off cost of TDKK 6.805.

Notes to the Financial Statements

	Group	
	<u>2016/17</u>	<u>2015/16</u>
	TDKK	TDKK
11 Cash flow statement - adjustments		
Financial income	-182	-28
Financial expenses	190	108
Depreciation, amortisation and impairment losses, including losses and gains on sales	5.871	3.356
Tax on profit/loss for the year	13.393	16.394
Other adjustments	108	-784
	<u>19.380</u>	<u>19.046</u>
12 Cash flow statement - change in working capital		
Change in inventories	-1.243	1.764
Change in receivables	-2.447	-6.234
Change in other provisions	6.855	-1.081
Change in trade payables, etc	4.017	-329
	<u>7.182</u>	<u>-5.880</u>

13 Contingent assets, liabilities and other financial obligations

Contingent liabilities

Group:

Rental liabilities for the group amount monthly to TDKK 400 (2015/16 TDKK 404) with interminable periods between 1 month and 9 years.

The company has entered into operational leasing agreements with a monthly rate of TDKK 12 and an interminable period of 41 months.

Ellab A/S: Rental liabilities amount monthly to TDKK 234 (2015/16 TDKK 272) with an interminable period of 9 years.

Notes to the Financial Statements

14 Accounting Policies

The Annual Report of Ellab A/S for 2016/17 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

The Consolidated and Parent Company Financial Statements for 2016/17 are presented in TDKK.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions.

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

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

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

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, Ellab A/S, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Notes to the Financial Statements

14 Accounting Policies (continued)

Translation policies

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

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

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

Income Statement

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, revenue has not been disclosed in the Annual Report.

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Group.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Cost of sales

Cost of sales comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc, as well as operation, administration and management of factories.

Distribution expenses

Distribution expenses comprise costs in the form of salaries to sales and distribution staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

Notes to the Financial Statements

14 Accounting Policies (continued)

Research and development costs

Research and development costs comprise research costs, costs relating to development projects that do not qualify for recognition in the balance sheet as well as amortisation and impairment of development projects.

Administrative expenses

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

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax and change in deferred tax for the year. Current tax is calculated based on profit/loss before tax for the year adjusted for non-taxable income and expenses. A tax rate of 22% is applied for the calculation.

Notes to the Financial Statements

14 Accounting Policies (continued)

Balance Sheet

Intangible assets

Goodwill acquired is measured at cost less accumulated amortisation. Goodwill is amortised on a straight-line basis over its useful life, which is assessed at 5 years.

Development costs cover costs and salaries directly or indirectly attributable to the development activities of the enterprise.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies where the cost can be measured reliably and if sufficient certainty exists that future earnings cover production costs, selling costs and administrative expenses as well as the development costs. Other development costs are recognised in the income statement as incurred.

Depreciation of development projects recognised will start when the asset is ready for use. Development projects are amortised over a period of 3 years.

Property, plant and equipment

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

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

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

Development projects	3	years
Other fixtures and fittings, tools and equipment	3-5	years
Plant and machinery	5	years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 13,200 are expensed in the year of acquisition.

Notes to the Financial Statements

14 Accounting Policies (continued)

Impairment of fixed assets

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

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item "Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Other fixed asset investments

Other fixed asset investments consist of deposit.

Inventories

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

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Notes to the Financial Statements

14 Accounting Policies (continued)

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Group has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period of 1-5 years. Provisions are measured and recognised based on experience with guarantee work.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

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

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Notes to the Financial Statements

14 Accounting Policies (continued)

Financial debts

Debts are measured at amortised cost, substantially corresponding to nominal value.

Cash Flow Statement

The cash flow statement shows the Group's cash flows broken down by operating, investing and financing activities. Moreover, changes for the year in cash and cash equivalents are disclosed as well as cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

Cash flows from operating activities comprise net profit/loss for the year adjusted for items without cash flow effect, changes in working capital as well as corporation tax paid.

Cash flows from investing activities

Cash flows from investing activities comprise purchases and sales of intangible assets and property, plant and equipment as well as purchases and sales of financial assets.

Cash flows from financing activities

Cash flows from financing activities comprise the raising of loans, repayment of debt and payment of dividend to shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand less short-term bank debt.

The cash flow statement cannot be immediately derived from the published financial records.

Notes to the Financial Statements

14 Accounting Policies (continued)

Financial Highlights

Explanation of financial ratios

Solvency ratio

$$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$$

Return on equity

$$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$$