

Lyngsoe Systems Holding A/S

Lyngsø Alle 3
9600 Aars

CVR No. 25 65 69 46

Annual report 2016

The annual report was presented and approved at the
Company's annual general meeting
on 13 - 3 20 17
Poul S. Andersen
chairman of the annual general meeting

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Lyngsoe Systems Holding 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 consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's and the Parent Company's operations and consolidated 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 Group's and the Parent Company's activities and financial matters, of the results for the year and of the Group's and the Parent Company's financial position.

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

Aars, 20 February 2017
Executive Board:

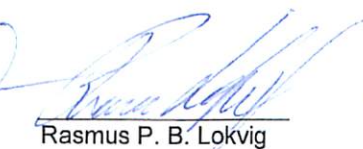


Jens Villads
Bjerregaard Thomsen
CEO

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 Holding A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Lyngsoe Systems Holding A/S for the financial year 1 January – 31 December 2016 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group as well as for the Parent Company and a cash flow statement for the Group. The consolidated financial statements and parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Group's and the Parent Company's operations and consolidated 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 consolidated financial statements and the parent company 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 rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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



Independent auditor's report

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent 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 consolidated financial statements and the parent company 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 consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance as to whether the consolidated financial statements and the parent company 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 financial statement users made on the basis of these consolidated financial statements and parent company 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 consolidated financial statements and the parent 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 Group's and the Parent Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.



Independent auditor's report

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent company 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 Parent 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 consolidated financial statements and the parent company 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 Group and the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company 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.

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements or the parent company 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.



Independent auditor's report

Based on the work we have performed, we conclude that the 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 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

A handwritten signature in blue ink, appearing to read 'Henrik O. Larsen'.

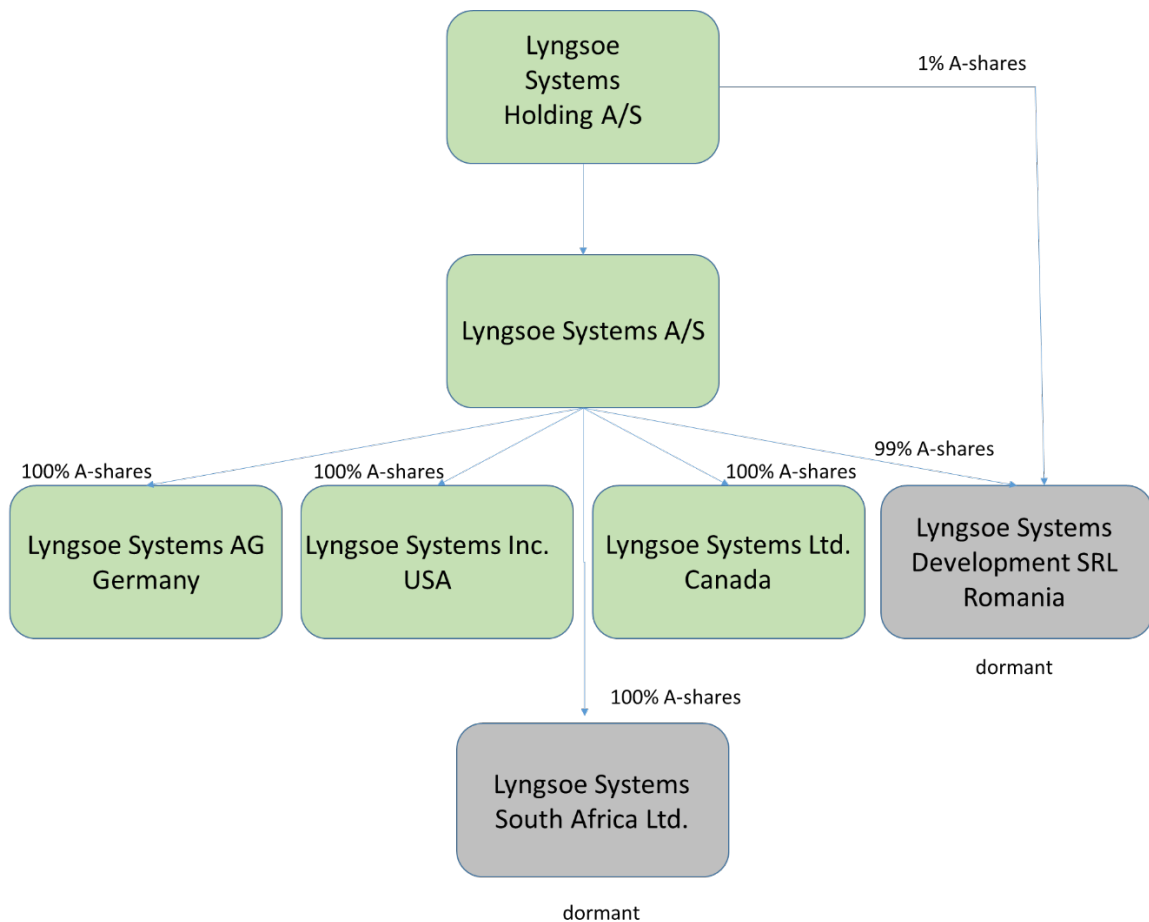
Henrik O. Larsen
State Authorised
Public Accountant

A handwritten signature in blue ink, appearing to read 'Steffen S. Hansen'.

Steffen S. Hansen
State Authorised
Public Accountant

Management's review

Group chart



Management's review

Financial highlights for the Group

DKK'000	2016	2015	2014*
Revenue	286,674	259,603	214,300
Gross profit	157,472	145,206	119,350
EBITDA	25,402	15,423	11,016
EBITDA, normalized**	28,426	23,106	13,616
Operating profit	14,833	4,568	3,196
Earnings before tax	12,895	5,145	2,319
Profit for the year	8,824	3,842	1,136
Fixed assets	118,242	122,013	124,527
Current assets	136,656	115,231	108,631
Total assets	254,898	237,244	233,158
Equity	93,781	84,188	78,627
Provisions	17,810	15,513	13,145
Non-current liabilities	17,982	18,777	25,880
Current liabilities	125,325	118,766	115,506
Net working capital	28,745	13,765	10,983
Net interest-bearing debt	48,329	49,109	45,630
Net cash flows	104	-1,654	-15,430
Portion relating to investments in property, plant and equipment	1,017	445	384
Return on invested capital	24.8%	9.2%	6.8%
Solvency ratio	36.8%	35.5%	33.7%
Return on equity	9.9%	4.7%	1.5%
Average number of full-time employees	189	189	199

* The figures for 2014 relate to the period from the acquisition of Lyngsoe Systems Group on 10 March 2014 to 31 December 2014.

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

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 have been calculated as follows:

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

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 Group

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 QoS (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

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

The Company 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

2016 was the best ever in the history of the Group. Consolidated gross profit was DKK 157.5 million (2015: DKK 145.2 million) and EBITDA normalized for one off items totalling DKK 3.0 million amounted to DKK 28.2 million (EBITDA was DKK 25.2 million). This is significant improvement over the past year where EBITDA was DKK 15.5 million. After depreciation and amortisation, consolidated operating profit was DKK 14.8 million (2015: DKK 4.6 million). The consolidated profit for the year was DKK 8.8 million (2015: DKK 3.8 million). Results are considered satisfactory.

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

The average number of FTE's during 2016 was 189 (2015: 189). The number of average FTE's employed in Denmark was 152 (2015: 145).

After investments totalling DKK 6.8 million and net repayment of loans by DKK 0.4 million, total cash flows stood at DKK 0.1 million.

Equity ratio represented 36.8%, up from 35.4% at 31 December 2015.

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 recognising 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.

Management's review

Operating review

Incurring 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/>

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.

Management's review

Operating review

Anti-corruption

The Group recognises 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.

Corporate Governance

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

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

The 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.

Management's review

Operating review

The executive manager (CEO) is Mr. Villads B. Thomsen. He owns 1.6% of Lyngsoe Systems Holding A/S. He is also CEO in Lyngsoe Systems A/S and all foreign subsidiaries. Besides that, he is CEO in JVBT ApS.

The composition of the Board is as follows:

Mr. Jørgen Bardenfleth, Chairman,
Mr. Rasmus Lokvig, Deputy Chairman
Mr. Vilhelm Hahn-Petersen
Mr. Finn H. Mathiassen,
Mr. Jesper Jarlbæk,
Mr. Carsten N. Knudsen

The Board members hold the following positions:

Except for Mr. Rasmus Lokvig, who became member of the Board in November 2015 and deputy Chairman in March 2016, all others have been members since March 2014 when CataCap took over control of ownership.

Chairman Jørgen Bardenfleth

Directly owns 0.8% of Lyngsoe Systems Holding A/S.

Chairman	Deputy Chairman	Board member / CEO
LYNGSOE SYSTEMS HOLDING A/S	SYMBION FONDEN	PRODATA CONSULT A/S
LYNGSOE SYSTEMS A/S		AX IV EG HOLDING III A/S
ACCELERACE FONDEN		EG A/S
DUBEX A/S		MINERVA A/S
ACCELERACE MANAGEMENT A/S		ATHENA IT-GROUP A/S
SYMBION A/S		VALLØ STIFT
ARKITEMA K/S		BIZBRAINS APS
		SWIP.COM
		NORDIC POWER CONVERTERS
		APS

Management's review

Operating review

Deputy chairman Rasmus

Lokvig, Director at CataCap Management A/S. Indirectly owns 0.1% of Lyngsoe Systems Holding A/S.

Chairman	Deputy Chairman
MNGT4 RL APS	LYNGSOE SYSTEMS HOLDING A/S LYNGSOE SYSTEMS A/S

Board member Vilhelm Hahn-

Petersen, Partner at CataCap. Indirectly owns 1.4% of Lyngsoe Systems Holding A/S.

Chairman	Deputy Chairman	Board member / CEO
CAPACENT A/S	MOBYLIFE AS MOBYLIFE HOLDING A/S MOBYLIFE AB MOBYLIFE DK A/S MOBYLIFE LJUNGBY AB MOBYLIFE OY MOBYLIFE HELSINKI OY MOBYLIFE DRAMMEN AS MOBYLIFE KONGSBERG AS	CC TRACK INVEST APS MYCO APS CATACAP DM APS CATACAP OP APS CC ORANGE INVEST APS CC OSCAR HOLDING I A/S CC OSCAR INVEST APS CC TOOL INVEST APS CC OSCAR HOLDING II A/S CC SKY INVEST APS CASA MANCO APS CASA A/S MOBYLIFE DM APS CC EXPLORER INVEST APS G.S.V. HOLDING A/S G.S.V. MATERIELUDLEJNING A/S SKYBRANDS HOLDING A/S SKYBRANDS A/S AIRHELP INC.

Management's review

Operating review

Board member Finn H.

Mathiassen

Directly owns 7.5% of Lyngsoe Systems Holding A/S
Chairman

JUTLANDER BANK A/S
MASARYK SRL
ØGAARD EL A/S
OASEN BYG APS
OASEN APS

Board member / CEO

LYNGSOE SYSTEMS HOLDING A/S
LYNGSOE SYSTEMS A/S
EKSEKVER APS (IN THE PROCESS OF ESTABLISHMENT)

Board member Jesper

Jarlbæk

Directly owns 0.2% of Lyngsoe Systems Holding A/S.
Chairman

CATACAP MANAGEMENT A/S
BASICO LEGAL IVS
BASICO P/S
FROKOST.DK APS
BEYOND BUDGETING
INSTITUTE P/S
SHOWME APS
BASICO CONSULTING
INTERNATIONAL APS
VALUEMAKER APS
BORTFORPAGTNINGS
SELSKABET
BASICO A/S
JAWS A/S
GROUFCARE A/S
GROUFCARE HOLDING A/S
DANISH BUSINESS ANGELS
GARANT UDLEJNING A/S
MATERIEL UDLEJNING
HOLDING A/S
XYCON FINANS A/S
HYR APS
FOND TALSINKI 2015 I A/S
FOND TALSINKI 2015 II A/S
FOND TALSINKI 2015 III A/S
FOND TALSINKI 2015 IV A/S

Deputy Chairman

DANISH
VENTURE
CAPITAL
AND PRIVATE
EQUITY
ASSOCIATION

Board member / CEO

BUSINESS ANGELS FOND – LONDON I A/S
BUSINESS ANGELS FOND –
LONDON II A/S
BUSINESS ANGELS FOND –
LONDON III A/S
EARLBROOK HOLDINGS LTD A/S
BOOKBOON CORPORATE A/S
LYNGSOE SYSTEMS HOLDING A/S
LYNGSOE SYSTEMS A/S
A-SOLUTIONS A/S
BANG & OLUFSEN A/S
POLARIS III INVEST FONDEN

Management's review

Operating review

**Board member Carsten N.
Knudsen**

Directly owns 0.2% of Lyngsoe
Systems Holding A/S.

Chairman

G.S.V HOLDING A/S
G.S.V MATERIELUDLEJNING A/S
DANE TOPCO APS
BLACK BIDCO APS
GLUNZ & JENSEN A/S
SELANDIA PARK A/S
GLUNZ & JENSEN HOLDING A/S

Board member / CEO

LYNGSOE SYSTEMS HOLDING A/S
LYNGSOE SYSTEMS A/S
SØGAARDEN-SJÆLSØ APS

The Board assures that the executive management follows the defined objectives, strategies and business procedures. Feedback from executive management takes place systematically in meetings and through written and verbal reports. Furthermore, the lead bank of the Company and the group is informed monthly and in at least one annual meeting. The Board considers that this, along with the internal procedures, provides for an adequate and effective risk management and appropriate internal controls.

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

The chairmanship, which consist of the Chairman and the Deputy Chairman of the Board, has a close and continuous dialogue with the daily management of the Company.

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

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

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

Management's review

Operating review

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 technological 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.

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.

Management's review

Operating review

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.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Income statement

DKK'000	Note	Group		Parent Company	
		2016	2015	2016	2015
Revenue		286,674	259,603	0	0
Direct costs		-94,681	-81,566	0	0
External costs		-34,521	-32,831	-363	-115
Gross profit/loss		157,472	145,206	-363	-115
Staff costs	2	-132,070	-129,783	0	0
Amortisation of intangible assets		-8,860	-7,988	0	0
Depreciation of property, plant and equipment		-1,709	-2,867	0	0
Operating profit/loss		14,833	4,568	-363	-115
Other financial income	3	81	2,530	12	82
Other financial expenses		-2,019	-1,953	-348	-446
Profit/loss before tax		12,895	5,145	-699	-479
Tax on profit/loss for the year	4	-4,071	-1,303	120	122
Profit/loss for the year	5	8,824	3,842	-579	-357

Consolidated financial statements and parent company financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	Group		Parent Company	
		2016	2015	2016	2015
ASSETS					
Fixed assets					
Intangible assets					
	6				
Goodwill		79,189	83,783	0	0
Development projects		17,849	16,252	0	0
		<u>97,038</u>	<u>100,035</u>	<u>0</u>	<u>0</u>
Property, plant and equipment					
	7				
Land and buildings		18,609	19,440	0	0
Fixtures and fittings, tools and equipment		2,595	2,538	0	0
		<u>21,204</u>	<u>21,978</u>	<u>0</u>	<u>0</u>
Investments					
Investments in subsidiaries	8	0	0	89,979	89,979
Total fixed assets		<u>118,242</u>	<u>122,013</u>	<u>89,979</u>	<u>89,979</u>
Current assets					
Inventories					
Raw materials and consumables		5,156	5,047	0	0
		<u>5,156</u>	<u>5,047</u>	<u>0</u>	<u>0</u>
Receivables					
Trade receivables		79,796	64,583	0	0
Receivables from group entities		0	0	542	431
Contract work in progress	9	41,085	33,566	0	0
Other receivables		2,488	2,700	0	0
Tax receivable		1,708	958	0	161
Tax assets	10	3,382	4,216	236	116
		<u>128,459</u>	<u>106,023</u>	<u>778</u>	<u>708</u>
Cash at bank and in hand		<u>3,041</u>	<u>4,160</u>	<u>3</u>	<u>2</u>
Total current assets		<u>136,656</u>	<u>115,230</u>	<u>781</u>	<u>710</u>
TOTAL ASSETS		<u>254,898</u>	<u>237,243</u>	<u>90,760</u>	<u>90,689</u>

Consolidated financial statements and parent company financial statements 1 January – 31 December

Balance sheet

DKK'000	Note	Group		Parent Company	
		2016	2015	2016	2015
EQUITY AND LIABILITIES					
Equity					
Share capital	11	1,210	1,202	1,210	1,202
Retained earnings		92,571	82,986	77,170	77,486
Total equity		93,781	84,188	78,380	78,688
Provisions					
Provisions for deferred tax	10	9,967	7,655	0	0
Warranty provisions		7,843	7,858	0	0
Total provisions		17,810	15,513	0	0
Liabilities other than provisions					
Non-current liabilities other than provisions					
Mortgage credit institutions	12	13,768	14,637	0	0
Loan, credit institutions		4,000	4,000	4,000	4,000
Lease commitments		214	140	0	0
		17,982	18,777	4,000	4,000
Current liabilities other than provisions					
Current portion of non-current liabilities	12	9,046	8,928	8,000	8,000
Bank loans and overdrafts		24,342	25,565	0	0
Prepayments received from customers		32,039	30,563	0	0
Trade payables		18,555	18,623	0	0
Other payables		29,497	23,817	380	1
Deferred income	13	11,846	11,269	0	0
		125,325	118,765	8,380	8,001
Total liabilities other than provisions		143,307	137,542	12,380	12,001
TOTAL EQUITY AND LIABILITIES		254,898	237,243	90,760	90,689
Contractual obligations, contingencies, etc.					
	15				
Related party disclosures					
	16				
Events after the balance sheet date					
	17				

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Parent Company		
	Share capital	Retained earnings	Total equity
Equity at 1 January 2016	1,202	77,486	78,688
Share capital increase	8	294	302
Acquisition of treasury shares	0	-31	-31
Transferred over the profit appropriation/distribution of loss	0	-579	-579
Equity at 31 December 2016	1,210	77,170	78,380

DKK'000	Consolidated			
	Share capital	Reserve for development costs	Retained earnings	Total equity
Equity at 1 January 2016	1,202	0	82,986	84,188
Share capital increase	8	0	294	302
Acquisition of treasury shares	0	0	-31	-31
Addition of development projects during the year	0	5,863	-5,863	0
Transferred over the profit appropriation/distribution of loss	0	-428	9,252	8,824
Exchange rate adjustment, foreign subsidiary	0	0	498	498
Equity at 31 December 2016	1,210	5,435	87,136	93,781

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Cash flow statement

DKK'000	Note	Group	
		2016	2015
Profit for the year		8,824	3,842
Amortisation and depreciation		10,569	10,855
Financial income and expenses, net		1,938	-577
Tax on profit for the year		4,071	1,303
Cash generated from operations before changes in working capital		25,402	15,423
Changes in working capital	14	-14,978	-2,782
Cash generated from operations		10,424	12,641
Interest income		81	2,530
Interest expense		-2,019	-1,672
Other adjustments		0	-746
Corporation tax paid		-1,167	-130
Cash flows from operating activities		7,319	12,623
Capitalisation of development costs		-5,863	-7,896
Acquisition of property, plant and equipment		-1,017	-445
Disposals of property, plant and equipment		70	118
Cash flows from investing activities		-6,810	-8,223
Cash from change in mortgage debt, net		0	1,312
Repayment of mortgage debt		-866	-595
Repayment of long-term debt		0	-8,000
New leasing liability		376	419
Repayment of lease liabilities		-187	-140
Increase in share capital		302	950
Acquisition of treasury shares		-31	0
Cash flows from financing activities		-406	-6,054
Cash flows for the year		103	-1,654
Cash and cash equivalents at the beginning of the year		-21,404	-19,750
Cash and cash equivalents at year end		-21,301	-21,404

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Lyngsoe Systems Holding 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, dividends from equity investments in subsidiaries recognised at cost are always recognised in the income statement. In case of indication of impairment, an impairment test is conducted. Indication of impairment exists if distributed dividend exceeds profit for the year or if the carrying amount of equity investments exceeds the consolidated carrying amounts of the net assets in subsidiaries. Previously, cost was reduced to the extent that distributed dividend exceeded accumulated earnings after the acquisition date.
- 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.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, Lyngsoe Systems Holding A/S, and subsidiaries in which Lyngsoe Systems Holding A/S directly or indirectly holds more than 50% of the votes or in some other way exercises control. Entities in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are considered associates. A group chart is included on page 7.

On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends and realised and unrealised gains and losses on intra-group transactions are eliminated.

Equity investments in subsidiaries are set off against the proportionate share of subsidiaries' fair value of net assets and liabilities at the date of acquisition.

Recognition and measurement

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

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

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

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

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

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

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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 exchange rate for the year and whose balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of opening equity of foreign subsidiaries at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates ruling at the balance sheet date are recognised directly in equity.

Income statement

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.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

Dividends from equity investments in group entities and associates measured at cost are recognised as income in the income statement in the financial year when the dividends are declared.

In case of indication of impairment, an impairment test is conducted. Indication of impairment exists if distributed dividend exceeds profit for the year or if the carrying amount of equity investments exceeds the consolidated carrying amounts of the net assets in the subsidiary.

Financial income and expenses

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

Tax on profit/loss for the year

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

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

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

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Goodwill

Goodwill is amortised on a straight-line basis over the estimated useful life determined on the basis of Management's experience within the individual business areas. Goodwill is amortised over 20 years.

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

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.

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.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

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

Balance sheet

Investments in group entities are measured at cost. In case of indication of impairment, an impairment test is conducted. When the cost exceeds the recoverable amount, write-down is made to this lower value.

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.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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

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

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

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

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

Prepayments from customers are recognised under liabilities.

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

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

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.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

Revaluation reserve

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.

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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

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.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

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.

DKK'000	2016	2015
2 Staff costs (consolidated)		
Wages and salaries	112,898	110,446
Pensions	12,720	12,941
Other social security costs	6,452	6,396
	<u>132,070</u>	<u>129,783</u>
Average number of employees	189	189

Remuneration of the parent company's Executive Board and Board of Directors is included in the staff costs of Lyngsoe Systems A/S. The remuneration totals DKK 2,783 thousand (2015: DKK 2,602 thousand).

3 Financial income (Parent Company)

Financial income from group entities totals DKK 12 thousand (2015: DKK 82 thousand).

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4 Tax on profit/loss for the year

DKK'000	Consoli- dated 2016	Consoli- dated 2015	Parent Company 2016	Parent Company 2015
Current tax for the year	3,237	253	0	0
Deferred tax adjustment for the year	834	1,050	-120	-122
	<u>4,071</u>	<u>1,303</u>	<u>-120</u>	<u>-122</u>

5 Proposed profit appropriation/distribution of loss

DKK'000	Parent Company	
	2016	2015
Retained earnings	-579	-357
	<u>-579</u>	<u>-357</u>

Financial statements 1 January – 31 December

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6 Intangible assets

	Group			
	Goodwill	Finalised development projects	Development projects in progress	Total
DKK'000				
Cost at 1 January 2016	91,877	14,104	6,351	112,332
Additions	0	3,578	2,285	5,863
Transferred	0	5,556	-5,556	0
Cost at 31 December 2016	91,877	23,238	3,080	118,195
Amortisation and impairment losses at 1 January 2016	8,094	4,203	0	12,297
Amortisation	4,594	4,266	0	8,860
Amortisation and impairment losses at 31 December 2016	12,688	8,469	0	21,157
Carrying amount at 31 December 2016	79,189	14,769	3,080	97,038

Goodwill

Prepared impairment test of goodwill showed no indication of impairment at 31 December 2016.

Development projects

Completed development projects and development projects in progress mainly relate to development of hardware for Library Solutions and development of software for Postal & Logistics solutions and Data Capture Solutions. The projects are amortised over 5 years. The projects in progress are expected to be completed within 1–2 years and to bring about considerable economic benefits.

Consolidated financial statements and parent company financial statements 1 January – 31 December

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7 Property, plant and equipment

DKK'000	Group		
	Land and buildings	Plant and machinery	Total
Cost at 1 January 2016	22,000	4,219	26,219
Additions	0	1,017	1,017
Disposals	0	-836	-836
Cost at 31 December 2016	22,000	4,400	26,400
Depreciation at 1 January 2016	2,560	1,681	4,241
Depreciation	831	863	1694
Depreciation on disposals	0	-739	-739
Depreciation at 31 December 2016	3,391	1,805	5,196
Carrying amount at 31 December 2016	18,609	2,595	21,204
Assets held under finance leases	0	560	560

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

8 Investments in subsidiaries

DKK'000	Parent Company	
	2016	2015
Carrying amount at 1 January	89,979	94,436
Adjustment of purchase price	0	-4,457
Carrying amount at 31 December	89,979	89,979

Prepared impairment test of carrying amount showed no indication of impairment at 31 December 2016.

Name and registered office	Owner- ship	Equity	Profit/loss for the year
		DKK'000	DKK'000
Lyngsoe Systems A/S, Denmark	100%	28,273	12,705
Lyngsoe Systems Development, Romania	1%	2,316	-302

Prepared impairment test of carrying amount showed no indication of impairment at 31 December 2016.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

9 Contract work in progress (consolidated)

DKK'000	2016	2015
Sales value of work performed	103,098	74,456
Progress billings	-94,052	-71,453
	<u>9,046</u>	<u>3,003</u>
Recognised as follows:		
Contract work in progress (assets)	41,085	33,566
Contract work in progress (liabilities)	-32,039	-30,563
	<u>9,046</u>	<u>3,003</u>

10 Deferred tax

Deferred tax assets mainly concern refund of amounts carried forward concerning development costs. Based on expected utilisation, the tax asset has been written down by DKK 6.1 million.

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

11 Share capital

Changes in share capital are specified as follows:

DKK'000	2016	2015
Opening balance	1,202	1,171
Share capital increase	8	31
	<u>1,210</u>	<u>1,202</u>

The share capital is specified as follows:

Nom. A shares	1,075	1,073
Nom. B shares	135	129
	<u>1,210</u>	<u>1,202</u>

Consolidated financial statements and parent company financial statements 1 January – 31 December

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12 Liabilities other than provisions

Parent Company

DKK'000	Total debt at 31/12 2016	Repayment initial year	Outstanding debt after 5 years
Other credit institutions	12,000	8,000	0
	<u>12,000</u>	<u>8,000</u>	<u>0</u>

Consolidated

DKK'000	Total debt at 31/12 2016	Repayment initial year	Outstanding debt after 5 years
Mortgage debt	14,559	791	10,667
Other credit institutions	12,000	8,000	0
Leasing debt	469	255	0
	<u>27,028</u>	<u>9,046</u>	<u>10,667</u>

13 Deferred income

Deferred income of DKK 11,846 thousand (2015: DKK 11,269 thousand) comprise payments received from customers that cannot be recognised until the subsequent financial year.

DKK'000	2016	2015
14 Change in working capital (consolidated)		
Change in inventories	-109	2,881
Change in receivables	-15,001	-133
Change in work in progress	-7,519	-7,207
Change in prepayments received	1,476	3,361
Change in trade and other payables	6,189	-2,704
Change in warranty provision	-14	1,020
	<u>-14,978</u>	<u>-2,782</u>

15 Contractual obligations, contingencies, etc.

Parent Company

A deed registered to the bank secured on shares in Lyngsoe Systems A/S and Lyngsoe Systems Holding A/S has been registered as collateral for all balances with Nordea Bank owed by the Group.

The Company has provided collateral on behalf of Lyngsoe Systems A/S for all debt to Nordea Bank.

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

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.

Consolidated

Land and buildings with a carrying amount of DKK 18,609 thousand at 31 December 2016 have been provided as collateral for amounts owed to mortgage institutions of DKK 14,559 thousand.

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15 Contractual obligations, contingencies, etc. (continued)

A mortgage deed registered to the mortgagor of DKK 8,000 thousand secured on land and buildings has been registered as collateral for balances 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 payment and performance guarantees totalling DKK 10,464 thousand (2015: DKK 11,614 thousand) via its bank and other partners. The Company has provided a joint and several guarantee at an amount of DKK 8,000 thousand for all amounts owed related to guarantees.

The Group is a party to a few minor disputes. Management is of the opinion that these cases will not affect the Company's financial position at 31 December 2016.

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

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:

CC Track Invest ApS, Øster Allé 42, 7., 2100 København Ø

Oasen ApS, Kong Knuds Vej 10, 9600 Aars.

CataCap K/S controls the majority of the share capital in the Company through CC Track Invest ApS.

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.