CFR Hospitaler A/S

Hans Bekkevolds Allé 2 B 2900 Hellerup

CVR no. 27 50 69 09

Annual report 2016

Approved at the Company's annual general meeting on 30 May 2017

Chairman:

Anette Lystrup Birch
Digitalt signeret af Anette Lystrup Birch
DN: c=DK, o=CENTER FOR RYGKIRURGI A/S // CVR:27506909, cn=Anette Lystrup Birch, serialNumber=CVR:27506909-RID:1181940235507
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Statement by Management on the annual report

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of CFR Hospitaler A/S for the financial year 1 January – 31 December 2016.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016.

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

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

Hellerup, 30 May 2017
Executive Board:

Thomas Kiær
Digitalt signeret af Thomas Kiær
DN: cn=Thomas Kiær, o, ou=CFR Hospitaler, email=tki@cfrhospitaler.dk, c=DK
Dato: 2017.05.30 11:03:11 +02'00'

Anette Lystrup Birch

Thomas Kiær	Anette Lystrup Birch

Board of Directors:

Thomas Frederik Berglund Chairman	Sven Erik Svensson	Nils Henrik Wilhelm Brehmer
Emil Fannikke Kiær	Per Gullestrup	

Independent auditor's report

To the shareholders of CFR Hospitaler A/S

Opinion

We have audited the financial statements of CFR Hospitaler A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit conducted in accordance with ISAs and 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 internal control.

Independent auditor's report

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Copenhagen, 30 May 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Henrik Reedtz State Authorised Public Accountant	Rasmus Bloch Jespersen State Authorised Public Accountant

Management's review

Financial highlights for the Company

The development in the Company during the last 5 years can be described as follows:

DKKm	2016	2015	2014	2013	2012
Key figures					
Gross margin	137,731	116,153	52,321	50,221	53,523
Ordinary operating profit	9,474	7,923	7,449	3,501	5,357
Net financials	375	96	335	282	269
Profit for the year	4,843	3,832	5,949	2,947	4,296
Total assets	98,602	111,195	111,081	46,626	48,506
Portion relating to investments in items of property, plant and equipment	45,568	54,879	18,034	19,018	24,503
Equity	31,717	34,302	32,623	27,674	26,727
Cash flows from operating activities	26,555	24,687	-	-	-
Cash flow from investing activities	-2,240	-34,839	-	-	-
Cash flows from financing activities	-24,059	142	-	-	-
Total cash flows	256	-10,010	-	-	-
Financial ratios					
Liquidity ratio	121,2	101,8	218,2	148,4	111,9
Equity ratio	32,2	30,8	29,4	59,4	55,1
Return on equity	16,3	11,4	19,7	10,8	19,9
Average number of full-time employees	177	159	68	72	69

Comparative figures concerning cash flows from operating, investing an financing activities have not been disclosed for the period 2012-2014 as the Company has not prepared and disclosed a cash flow statement for the Parent Company for that period.

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

Management's review

Management commentary

Business review

In 2016, the Group was involved in consolidation activities. CFR Hospitaler has acquired the company Astra Billeddiagnostik, located at the same address as CFR Lyngby.

Furthermore, the Group acquired the shares formerly owned by minority shareholders of the companies Smertecenter Skørping and Center for Billeddiagnostik.

In 2016, these subsidiaries were fully consolidated and a legal merger was carried out for accounting purposes.

This has resulted in a strengthening of the position of the Company's imaging division as it is now possible to perform MR diagnostics at all facilities, and mammography and ultrasound have become new areas of specialised fields.

The acquisition of Smertecenter Skørping in November 2015 also increased the number of areas of specialised fields and has increased the possibilities of treating patients with chronic conditions.

The Company's revenue is now based on a wide range of areas of specialised fields improving the possibility of servicing the large group of patients covered by public insurance and by private insurance companies as well as private patients.

The acquisition of Astra Billeddiagnostik included agreements with the Capital Region of Denmark and has increased the use of the Company's scanners in the Capital Region of Denmark.

During the year, the activity has been distributed evenly between the different areas of specialised fields.

The department in Nordjylland, Skørping, has participated in tenders for the performance of orthopaedic surgery and ocular surgery and has entered into agreements in both areas.

The profit/loss for the year in the departments

The department in Hellerup had the most activity covering spine surgery, orthopaedic surgery, hand surgery, urology and rheumatology/neurology. The activity stems from all the different categories – private, insurances and public. The activity was good during most of (the majority of) the year with expectations of lower activity levels during the summer and holiday periods.

The department in Lyngby also showed high performance, especially within the areas of gynaecology, abdominal surgery and ear, nose and throat surgery. This department has experienced an increase in the use of the different medical areas of specialised fields.

The department in Odense experienced a low rate of referral of public patients from the Region of Southern Denmark. However, the hospital has experienced continuous growth within other patient categories and the hospital has become a market leader within the field of private treatment and care in the Region of Southern Denmark. During the next years, we expect to increase the collaboration with the Region of Southern Denmark.

The department in Skørping increased the activity in the year, especially during the last part of the year. The collaboration with the insurance companies has improved and the tender won within the area of orthopaedic surgery resulted in an increased level of activity during the last months of the year. The facilities and IT technology were improved and the management of the department has been coordinated from the headquarters in Hellerup. This releases extra resources for treatment of patients and the department is ready to accept more patients in the years to come.

General business

During the year, CFR Hospitaler has experienced positive progress in the collaboration with the suppliers of patients. Current agreements were renegotiated and they were all extended.

The relationship between the Company and the insurance companies has been very good and an effort was put in to providing the best experience for the patients during their treatment. This year, internal and external country-wide surveys were conducted in order to evaluate the level of patient satisfaction.

Management's review

Management commentary

The feedback from these surveys showed a high level of patient satisfaction. The Company increased the level of activity by more than 90,000 patients and by more than 6,000 operations.

In 2013, the Company was accredited. This year, the Danish Institute for Quality and Accreditation in Healthcare developed a new model for private hospitals and the Company has launched a plan for the next accreditation in 2017 where, for the first time, all of the departments will be accredited jointly. This process has coordinated the work of improving the quality and implementing the same goals in all departments.

Financial review

The Company's income statement for the year ended 31 December 2016 showed a net profit of DKK 4,843 thousand, and at 31 December 2016, the balance sheet showed equity of DKK 31,717 thousand. Management considers the level of activity and the profit for the year as satisfactory.

Unusual circumstances that have affected recognition and measurement

Acquisition of Astra Billeddiagnostik A/S followed by tax-free legal merger

On 13 November 2016, the Company acquired the share capital of Astra Billeddiagnostik A/S. The acquisition was accounted for by applying the acquisition method. Subsequent to the acquisition, the Board of Directors decided to carry out a legal merger between CFR Hospitaler A/S and Astra Billeddiagnostik A/S with CFR Hospitaler A/S as the continuing company. The legal merger was carried out as a tax-free merger.

For financial statement purposes, the legal merger took effect at 1 January 2016. This approach is based on requirements as to tax-free mergers as set forth in Danish tax law. Consequently, the profit and loss of Astra Billeddiagnostik A/S for the twelve month period ended on 31 December 2016 is incorporated in the Company's financial statements for 2016. The difference between the opening balance of Astra Billeddiagnostik A/S and the acquisition balance at 13 November 2016 is recognised in equity.

Tax-free vertical merger with subsidiaries

In the financial year, the Board of Directors decided to carry our legal mergers between CFR Hospitaler A/S and its subsidiaries; Center for Billeddiagnostik ApS, SmerteCenter Skørping A/S, Københavns Privathospital Facility ApS and Københavns Privathospital Facility 2 ApS with CFR Hospitaler A/S as the continuing company. The legal mergers were carried out as tax-free mergers.

For financial statement purposes, the legal mergers took effect at 1 January 2016. Consequently, the profit and loss of Center for Billeddiagnostik A/S, SmerteCenter Skørping A/S, Københavns Privathospital Facility ApS and Københavns Privathospital Facility 2 ApS for the twelve month period ended on 31 December 2016 is incorporated in the Company's financial statements for 2016.

Correction of deferred tax assets and contribution from shareholders in 2015

The Company has corrected deferred tax assets at 31 December 2015 and contribution from shareholders in 2015. Consequently, the comparative figures and equity at 1 January 2016 have been restated in these financial statements, affecting deferred tax assets at 31 December 2015 by DKK 1,496 thousand and income tax for 2015 by DKK 1,496 thousand, staff costs for 2015 and other receivables at 31 December 2015 by DKK 705 thousand and contributions from shareholders in 2015 by DKK 1,410 thousand. Profit before tax increased by DKK 705 thousand in 2015, profit for the year increased by DKK 2,201 thousand.

At 1 January 2016, equity increased by DKK 791 thousand and the balance sheet total increased by DKK 791 thousand.

Management's review

Management commentary

Outlook

The Company is now part of a strategy of a major group and it is the goal to take an increasing responsibility and role in the healthcare system in Denmark. The ambition of the Company is to take part in improvements in treatment and care, and as a part of a bigger group, it is the expectation that the Company will take part in the expected growth which will be seen in the treatment and care for a population with increasing demands for hospital treatment.

The increase in the level of activity in 2016 fulfilled the expectation from 2015. In 2016, gross margin increased by 18% and the operating profit increased by 20%. In 2016, the Company's results were also affected by costs in connection with acquisitions and mergers. The Company expects continued positive development in both gross profit and operating profit in 2017. In 2017, gross profit is expected to increase by 20-30% and operating profit to increase by 30-50% as some of the synergy effects deriving from the mergers and acquisitions carried out in 2016will be fully phased-in in 2017.

Events after balance sheet date

Following the end of the financial year, the composition of shareholders has changed as the company Capio AB has become a major shareholder by acquiring the majority of the shares in the Company. Three of the former shareholders will continue as minority shareholders. The Company will be a part of Capio Group Scandinavia and will be a part of the strategy for the region of the Group.

As a consequence of the Capio acquisition, the Company released and paid an earn-out provision totalling DKK 12,675 classified as non-current liabilities in these financial statements.

No other events that could significantly affect the financial statements have occurred after the balance sheet date.

Financial statements 1 January – 31 December

Income statement

Note	DKK'000	2016	2015
	Gross margin	137,731	116,153
3	Staff costs	-104,505	-88,478
4	Amortisation and depreciation of intangible assets and property, plant and equipment	-23,752	-19,752
	Operating profit	9,474	7,923
	Income from investments in subsidiaries	0	625
	Financial income	839	374
	Financial expenses	-464	-903
	Profit before tax	9,849	8,019
5	Tax for the year	-5,006	-4,187
	Profit for the year	4,843	3,832

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2016	2015
	ASSETS		
	Non-current assets		
6	**Intangible assets**		
	Goodwill	29,973	35,330
		29,973	35,330
7	**Property, plant and equipment**		
	Leasehold improvements	4,601	7,511
	Fixtures and fittings, tools and equipment	6,692	4,634
		11,293	12,145
8	**Financial assets**		
	Investments in group entities	0	3,170
	Other receivables	4,302	4,234
		4,302	7,404
	Total non-current assets	45,568	54,879
	Current assets		
	Receivables		
	Trade receivables	47,524	46,031
	Other receivables	89	240
9	Deferred tax assets	1,113	843
10	Prepayments	3,358	1,356
		52,084	48,470
	Marketable securities	482	7,634
	Cash	468	212
	Total current assets	53,034	56,316
	TOTAL ASSETS	98,602	111,195

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2016	2015
	EQUITY AND LIABILITIES		
	Equity		
11	Share capital	1,053	1,092
	Retained earnings	30,664	23,210
	Dividend proposed for the year	0	10,000
	Total equity	31,717	34,302
	Non-current liabilities		
12	Other provisions	23,142	21,567
	Total non-current liabilities	23,142	21,567
	Current liabilities		
	Debt to credit institutions	8,123	17,166
	Trade payables	13,059	13,836
	Amounts owed to group entities	0	4,815
	Income taxes	4,237	3,637
	Other payables	18,324	15,872
	Total liabilities	43,743	55,326
	TOTAL EQUITY AND LIABILITIES	98,602	111,195

1 Accounting policies
2 Events after the balance sheet date
13 Contractual obligations and contingencies, etc.
14 Securities for loans
15 Related parties

Financial statements 1 January – 31 December

Statement of changes in equity

Note	DKK'000	Share capital	Retained earnings	Dividend proposed for the year	Total
	Equity at 1 January 2016	1,092	22,419	10,000	33,511
	Correction regarding 2015	0	791	0	791
	Adjusted equity at 1 January 2016	1,092	23,210	10,000	34,302
	Dividend distribution	0	363	-10,000	-9,637
11	Capital reduction, cancellation of treasury shares	-39	39	0	0
9	Merger with subsidiaries	0	2,897	0	2,897
	Profit for the period 1 January – 13 November 2016 for Astra Billeddiagnostik A/S	0	-688	0	-688
16	Appropriation of profit	0	4,843	0	4,843
	Equity at 31 December 2016	1,053	30,664	0	31,717

Financial statements 1 January – 31 December

Cash flow statement

Note	DKK'000	2016	2015
	Profit for the year	4,843	3,832
	Amortisation/depreciation	23,752	19,752
17	Other adjustments of non-cash operating items	3,667	6,698
	Cash generated from operations before changes in working capital	32,262	30,282
18	Changes in working capital	-1,015	-1,699
	Cash generated from operations	31,247	28,583
	Interest received	797	357
	Interest paid	-464	-490
	Income taxes paid	-5,025	-3,763
	Cash flows from operating activities	26,555	24,687
	Acquisition of property, plant and equipment	-1,388	-5,571
	Acquisition of financial assets	-68	-71
	Disposal of property, plant and equipment	1,141	1,000
	Acquisition of companies, net	-6,752	-27,731
	Earn-out, paid	-2,325	-300
	Acquisition/sale of securities	7,152	-2,166
	Cash flows from investing activities	-2,240	-34,839
	Liabilities assumed in acquisition	-4,014	-3,229
	Repayment of debt to credit institutions	-9,043	17,166
	Dividend distribution	-11,002	-13,795
	Cash flows from financing activities	-24,059	142
	Net cash flows	256	-10,010
	Cash and cash equivalents, beginning of year	212	10,222
	Cash and cash equivalents, year end	468	212

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of CFR Hospitaler A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to medium-size reporting class C entities.

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

1. Method applied to intra-group business combinations
2. Amortisation period, intangible assets
3. Annual reassessment of residual values of property, plant and equipment
4. Dividend from investments in subsidiaries.

Re 1: In connection with business combinations involving entities controlled by the Company, the book value method is applied going forward, meaning that the combination is considered complete at the time of acquisition without any restatement of comparative figures. Previously, the combination was considered completed at the beginning of the financial year with restatement of comparative figures.

Re 2: Intangible assets are amortised over the useful life of the assets. Previously, the maximum amortisation period in respect of intangible assets was 10 years under the Danish Financial Statements Act. Management has reassessed the useful life of intangibles assets, concluding that the amortisation period in respect of goodwill remains 4 years.

Re 3: In future, residual values of property, plant and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions with future effect only as a change in accounting estimates with no impact on equity.

Re 4: Dividend from investments in subsidiaries must always be recognised in the income statement going forward. If the carrying amount of the net assets of subsidiaries exceeds cost, or if dividend exceeding the profit for the year is distributed, there will be evidence of impairment, meaning that an impairment test must be conducted. Previously, dividend exceeding the subsidiary's accumulated earnings would be set off against cost.

None of the above changes affect the income statement or the balance sheet for 2016 or the comparative figures.

In addition, the Company has decided to present its balance sheet in horizontal format where non-current and current assets and liabilities are broken down affecting the presentation of the comparative figures for 2015.

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

Business combinations

Acquired entities are recognised in the financial statements from the date of acquisition or formation.

Corporate acquisitions are accounted for using the purchase method according to which the acquired entity's identifiable assets and liabilities are measured at fair value at the date of acquisition.

Tax-fee legal mergers with subsidiaries acquired in the financial year are recognised at the beginning of the financial year although the acquisition actually took place at a later date. As such, the profit or loss for the twelve months period ended 31 December of acquired entities is recognised in the Company's financial statements. The difference between the opening balance sheet of the acquired entity at the beginning of the year and the acquisition balance sheet is recognised directly in equity.

Restructuring costs, recognised in the acquired entity before the date of acquisition and not agreed as part of the acquisition, are included in the acquisition balance sheet and, hence, the calculation of goodwill. Costs relating to restructuring, determined by the acquiring entity, must be recognised in the income statement. The tax effect of the restatement of assets and liabilities is taken into account.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill) is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset.

Negative differences (negative goodwill) are recognised as income in the income statement at the time of acquisition when the general revenue recognition criteria are met.

Goodwill and negative goodwill from acquired entities may be adjusted until 12 months after the year of acquisition.

Intra-group business combinations

The 'book value method' is applied to business combinations such as acquisition and disposal of investments, mergers, demergers, additions of assets and share conversions, etc., in which entities controlled by the Company are involved, provided that the combination is considered completed at the time of acquisition without any restatement of comparative figures. Differences between the agreed consideration and the carrying amount of the acquired entity are recognised in equity.

For accounting purposes, legal mergers with subsidiaries, which are legally considered completed at the first day of the financial year, regardless of whether the transaction will actually take place at a later date, are accounted for at the first day of the financial year.

Change in the company's activities

The Company's level of activity changed in 2016 due to the acquisition of and subsequent legal merger with Astra Billeddiagnostik A/S and the legal mergers with the subsidiaries; Center for Billeddiagnostik ApS, SmerteCenter Skørping A/S, København Privathospital Facility ApS and København Privathospital Facility 2 ApS. Consequently, the financial statements for 2016 are, to an extent, incomparable with prior year's financial statements, in which the Company did not include the activities and operations from acquired companies and merged subsidiaries.

Correction of deferred tax assets and contribution from shareholders in 2015

In the financial statements for 2016, the Company has corrected deferred tax assets at 31 December 2015 and contribution from shareholders in 2015. Consequently, the comparative figures and equity at 1 January 2016 have been restated in the financial statements for 2016, affecting deferred tax assets at 31 December 2015 by DKK 1,496 thousand, income tax for 2015 by DKK 1,496 thousand, staff costs for 2015 and other receivables at 31 December 2015 by DKK 705 thousand and contributions from shareholders in 2015 by DKK 1,410 thousand. Profit before tax increased by DKK 705 thousand in 2015, profit for the year increased by DKK 2,201 thousand. At 1 January 2016, equity increased by DKK 791 thousand and the balance sheet total increased by DKK 791 thousand.

Reporting currency

The financial statements have been presented in DKK.

Foreign currency translation

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

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Receivables and payables and other monetary items denominated in foreign currencies are translated at closing rates. The difference between the exchange rates at the balance sheet date and 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.

Income statement

Revenue

Income from the sale of surgeries is recognised in revenue when the surgery is completed.

Income from the sale of services is recognised in revenue on a straight-line basis as the services are rendered, as the services are provided in the form of an indefinite number of actions over a specified period of time.

Revenue is measured at fair value of the agreed consideration less VAT and taxes charged on behalf of third parties. All discounts and rebates granted are recognised in revenue.

Gross margin

With reference to section 32 of the Danish Financial Statements Act, the items revenue, cost of sales, other external expenses and other operating income and expenses have been aggregated into one item called "Gross margin".

Other external expenses

Other external expenses comprise costs incurred in the year relating to the Company's main activity, including costs of distribution, sales, advertising, administration, premises, bad debts, payments relating to operating leases, etc.

Amortisation/depreciation

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.

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

Goodwill	4 years

The residual value of intangible assets is determined at the time of acquisition and are reassessed every year.

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

Leasehold improvements	10 years
Other fixtures and fittings, tools and equipment	3-5 years

The residual value of property, plant and equipment is determined at the time of acquisition and is reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised. In case of changes in the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

In case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Staff costs

Staff costs comprise wages and salaries, incl. holiday pay and pensions, as well as other social security costs, etc., to the Company's employees.

Income from investments in subsidiaries

Dividend from investments in subsidiaries is recognised in the income statement in the year of declaration. Distributions of dividend where the dividend exceeds the profit for the year or where the carrying amount of the Company's investments in the subsidiary exceeds the carrying amount of the subsidiary's net asset value will be evidence of impairment, meaning that an impairment test must be conducted.

Financial income and expenses

Financial income and expenses comprise interest income and expenses, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax for the year

Tax for the year comprises current tax for the year and changes in deferred tax. 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.

Balance sheet

Intangible assets

On initial recognition, intangible assets are measured at cost.

Goodwill is amortised over the expected economic life of the asset, measured by reference to Management's experience in the individual acquired business segments. Goodwill is amortised on a straight-line basis over the amortisation period, which is assessed as 4 years. The amortisation period is fixed on the basis of the expected repayment horizon.

Property, plant and equipment

Leasehold improvements and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

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

Investments in subsidiaries

Investments in subsidiaries are measured at cost. Cost includes the consideration measured at fair value plus direct purchase costs. In case of evidence of impairment, an impairment test must be conducted. Investments are written down to the lower of the carrying amount and the recoverable amount.

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1 **Accounting policies (continued)**

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment is tested annually for evidence of impairment other than the decrease in value reflected by amortisation/depreciation.

Impairment tests are conducted on individual assets or groups of assets when there is evidence of impairment. Assets are written down to the lower of the carrying amount and the recoverable amount.

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the net present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the net present value of the expected cash flows, including the realisable value of any collateral received.

Prepayments

Prepayments recognised under current assets comprise expenses incurred concerning subsequent financial years.

Marketable securities

Marketable securities, consisting of listed shares and bonds, are measured at fair value (market price) at the balance sheet date.

Equity

Dividend

Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the year is disclosed as a separate item under equity.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognised at cost and deducted from equity. No gain or loss is recognised in profit or loss on the purchase, sale or cancellation of the Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognised in retained earnings.

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1 Accounting policies (continued)

Income tax and deferred tax

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account.

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Income tax receivable" or "Income tax payable".

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. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes or on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting neither the profit/loss for the year nor the taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax base 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 set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rate applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Provisions

Provisions are recognised when the Company has a present obligation (legal or a constructive) as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at net realisable value. If the obligation is expected to be settled far into the future and the effect of the time value of money is material, the obligation is measured at fair value.

Provisions relating to expected costs to mitigate risk associated with remedial action in respects of surgeries are measured at net realisable value and recognised based on past experience.

Provisions relating to earn-out arrangements are measured at net realisable value and recognised based on the expected outcome of the respective earn-out arrangements.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, 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.

Fair value

The fair value measurement is based on the principal market. If no principal market exists, the measurement is based on the most advantageous market, i.e. the market that maximises the price of the asset or liability less transaction and/or transport costs.

All assets and liabilities which are measured at fair value, or whose fair value is disclosed, are classified based on the fair value hierarchy, see below:

Level 1: Value in an active market for similar assets/liabilities

Level 2: Value based on recognised valuation methods on the basis of observable market information

Level 3: Value based on recognised valuation methods and reasonable estimates (non-observable market information).

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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

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 income taxes paid.

Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities, activities and intangible assets, property, plant and equipment and financial assets.

Cash flows from financing activities

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

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term to maturity of three months or less, which are subject to only minor risks of changes in value.

Financial ratios

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

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

Liquidity ratio	$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$
Equity ratio	$\frac{\text{Equity, year-end x 100}}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$

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2 Events after the balance sheet date

Following the end of the financial year, the composition of shareholders has changed as the company Capio A/B has become a major shareholder by acquiring the majority of the shares in the Company. Three of the former shareholders will continue as minority shareholders. The Company will be a part of Capio Group Scandinavia and will be a part of the strategy for the region of the Group.

As a consequence of the Capio acquisition, the Company released and paid an earn-out provision totalling DKK 12,675 classified as non-current liabilities in these financial statements.

No other events that could significantly affect the financial statements have occurred after the balance sheet date.

	DKK'000	2016	2015
3	**Staff costs**		
	Wages and salaries	89,648	79,898
	Pensions	12,419	6,436
	Other social security costs	1,449	1,168
	Other payroll-related expenses	989	976
		104,505	88,478
	Average number of full-time employees	177	159

Staff costs include remuneration to the Executive Board, totalling DKK 5,398 thousand (2015: DKK 6,026 thousand), pensions, totalling DKK 644 thousand (2015: DKK 1,627 thousand), and directors' fees to the members of the Board of Directors, totalling DKK 120 thousand (2015: DKK 135 thousand).

		2016	2015
4	**Amortisation and depreciation of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	15,467	13,716
	Depreciation of property, plant and equipment	8,285	6,036
		23,752	19,752
5	**Tax for the year**		
	Current tax for the year	5,213	5,233
	Adjustment of the deferred tax charge for the year	-207	-1,046
	Prior-year adjustments	54	0
		5,060	4,187

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6 Intangible assets

DKK'000	Goodwill
Cost at 1 January 2016	59,553
Additions	10,111
Disposals	0
Cost at 31 December 2016	69,664
Amortisation at 1 January 2016	24,224
Amortisation in the year	15,467
Amortisation at 31 December 2016	39,691
Carrying amount at 31 December 2016	29,973
Amortised over	4 years

Management has not identified any evidence of impairment relating to the carrying amount of goodwill.

7 Property, plant and equipment

DKK'000	Leasehold improve-ments	Other fixtures and fittings, tools and equipment	Total
Cost at 1 January 2016	40,119	52,207	92,326
Adjustment	0	80	80
Additions through mergers with subsidiaries	5,904	22,529	28,433
Additions	0	1,388	1,388
Disposals	0	-1,150	1,150
Cost at 31 December 2016	46,023	75,054	121,077
Depreciation and impairment losses at 1 January 2016	32,604	47,573	80,177
Additions through mergers with subsidiaries	4,605	16,807	21,412
Depreciation	4,213	4,072	8,285
Disposals	0	-90	-90
Depreciation and impairment losses at 31 December 2016	41,422	68,362	109,784
Carrying amount at 31 December 2016	4,601	6,692	11,293
Depreciated over	10 years	3-5 years	

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8 **Financial assets**

	DKK'000
Investments in subsidiaries	
Cost at 1 January 2016	3,170
Additions, purchase of shares from minority shareholders in subsidiaries	1,302
Disposals, legal mergers	-4,472
Carrying amount at 31 December 2016	0

Impact on equity from merger with subsidiaries	
Costs transferred to equity in legal merger	-4,472
Equity of merged subsidiaries at 1 January 2016	8,734
Dividends distributed in 2016 from merged subsidiaries to minority shareholders	-1,365
	2,897

DKK'000	Lease deposits
Other receivables	
Cost at 1 January 2016	4,234
Additions	68
Disposals	0
Carrying amount at 31 December 2016	4,302

	DKK'000	2016	2015
9	**Deferred tax assets**		
	Deferred tax assets at 1 January	843	-187
	Current year adjustment of deferred tax	207	1,046
	Effect of change in tax rate	0	58
	Deferred tax regarding acquisitions	63	-74
		1,113	843
10	**Prepayments**		
	Prepaid insurance premiums	1,730	420
	Other prepaid expenses	1,628	936
		3,358	1,356

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11 **Share capital**

The share capital comprises 1,053 shares of DKK 1,000 nominal value each. All shares rank equally.

Analysis of changes in the share capital over the past five years:

DKK	2016	2015	2014	2013	2012
Balance at 1 January	1,092	978	978	978	900
Cash capital increase	0	114	0	0	78
Capital reduction to cover loss	39	0	0	0	0
Balance at 31 December	1,053	1,092	978	978	978

Treasury shares

In 2015, the Company acquired 98 treasury shares, equivalent to 10% of the share capital at the transaction date, and sold 58 treasury shares, equivalent to 6% of the share capital at the transaction date. At 31 December 2015, the Company held 39 treasury shares of DKK 1,000 nominal value each, accounting for 4% of the share capital at 31 December 2015.

In 2016, the 39 treasury shares were cancelled through a capital decrease carried out in the financial year. The Company holds no treasury shares at 31 December 2016.

DKK'000	2016	2015
12 **Other provisions**		
Other provisions at 1 January	21,567	5,723
Used during the year	-2,325	0
Reversal	0	-1,131
Provision for the year	3,900	16,975
Other provisions at 31 December	23,142	21,567
Other provisions are expected to mature within:		
0-1 year	14,675	4,500
1-5 years	6,467	15,067
> 5 years	2,000	2,000
	23,142	21,567

Other provisions comprise provisions relating to expected costs to mitigate risk associated with remedial action in respects of surgeries and earn-out provisions. Reference is made to note 2.

13 **Contractual obligations and contingencies, etc.**

Contingent liabilities

CFR Hospitaler A/S is party to a few pending legal disputes. In Management's opinion, the outcome of these legal disputes will not affect the Company's financial position apart from the receivables and payables recognised in the balance sheet at 31 December 2016.

Operating lease liabilities

Lease liabilities (operating leases), which fall due within 4 years, total DKK 29,802 thousand (2015: DKK 41,301 thousand).

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14 **Securities for loans**

As security for debt to credit institutions, the Company issued chattels mortgage deeds at a total amount of DKK 2,500 thousand secured in its operating equipment, fittings, tools and equipment, leasehold rights and goodwill and receivables charges totalling DKK 15,000 thousand. The Company is restricted from distribution of dividends without prior agreement with the Company's credit institution.

In addition, the Company has provided a payment guarantee of DKK 919 thousand to Nordea Properties.

15 **Related parties**

Related party transactions

Besides distribution of dividend, no other transactions were carried through with shareholders in the year.

Remuneration/fees to members of the Executive Board and the Board of Directors are reflected in note 3.

	DKK'000	2016	2015
16	**Appropriation of profit**		
	Recommended appropriation of profit		
	Dividend proposed for the year	0	10,000
	Transferred to reserves under equity	4,843	-6,168
		4,843	3,832
17	**Cash generated from operations before changes in working capital**		
	Financial income	-839	-374
	Financial expenses	464	903
	Tax for the year	5,006	4,187
	Other adjustments	-964	1,982
		3,667	6,698
18	**Changes in working capital**		
	Change in inventories	0	390
	Change in receivables	-2,640	-26,992
	Change in prepayments and trade and other payables	1,625	24,903
		-1,015	-1,699