

Alpine Biomed ApS

Tonsbakken 16-18
2740 Skovlunde

CVR no. 30 27 72 60

Annual report 2016

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

on 06 June 2017

Sinead Casserly
chairman of the general meeting

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Statement by the Executive Board

The Executive Board has today discussed and approved the annual report of Alpine Biomed ApS for the financial year 1 January – 31 December 2016.

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

In my opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's activities for the financial year 1 January – 31 December 2016.

Further, in my opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Skovlunde, 6 June 2017
Executive Board:


Sean David Langan



Independent auditor's report

To the shareholder of Alpine Biomed ApS

Conclusion

We have audited the financial statements of Alpine Biomed ApS for the financial year 1 January – 31 December 2016 comprising income statement, balance sheet, statement of changes in equity and notes. The financial statements have been prepared in accordance with the rules of the Danish Financial Statements Act.

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

Basis for opinion

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

Management's responsibility for the financial statements

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

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



Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

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

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

- identify and assess the risks of material misstatement of the company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.



Independent auditor's report

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

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

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

Copenhagen, 6 June 2017

KPMG

Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

A handwritten signature in blue ink, appearing to read 'H. Kyhnau', is written over the printed name.

Henrik Kyhnau
State Authorised
Public Accountant

Management's review

Operating review

Core activity

Alpine Biomed ApS develops EMG products within neurology for the global distributor, which is an associated company in Ireland, Natus Manufacturing Ireland Ltd. The Company's revenue comes from a business leasing agreement between the parties.

Development in the year

The profit before tax for the year amounted to DKK 14,374 thousand. This is in line with Management's expectations for the year.

The improvement in profit compared to 2015 is primarily caused by the transfer of the production and distribution setup to Natus Manufacturing Ireland Ltd. This has resulted in a more efficient and profitable production setup, which has led to an increase in the income from the Business Lease Agreement between the parties.

The Company's balance sheet has been affected by the business acquisition of GN Otometrics, which was finalised in January 2017.

In 2016, a tax audit of Natus Europe GmbH resulted in an adjustment of DKK 2.6 million related to revenue from the business lease agreement recognised in 2012. Within the scope of agreement between Alpine Biomed and Natus Europe GmbH, Alpine Biomed received royalty income from Natus Europe GmbH. In November 2016, The German Taxing Authority claimed the royalty income paid to Alpine Biomed was overstated by EUR 351 thousands or DKK 2.6 million. The Management has expensed substantial resources to validate the correctness of original royalty income. After a long negotiation period of time and Management's desires to avoid incurring further expenditures and delay of the completion of the audit; the management determined it is prudent action to accept the claims by the Taxing Authority as a settlement of the tax audit.

Alpine Biomed has started the application of correlative relief of seeking tax refunds from Danish Taxing Authority with respect to the reduction of 2012 previously reported taxable income. As a result of the tax audit, the adjustment of EUR 351 thousands or DKK 2.6 million was made directly in equity as this event was described in the Notes Section of the financial statements 1 January – 31 December under the caption of Material Errors.

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Outlook

Management expects that the profit before tax for 2017 will be in line with the profit before tax recognised in 2016.

Events after the balance sheet date

Subsequently to the balance sheet date, the Company acquired GN Otometrics A/S. The acquisition took place in January 2017.

The acquisition of GN Otometrics will be recognised as an equity investment in the 2017 financial statements for the Company.

Financial statements 1 January – 31 December

Income statement

	Note	2016	2015
Gross profit		23,646,303	9,622,433
Staff costs	2	-7,984,630	-9,593,995
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment		-758,209	-843,598
Operating profit/loss		14,903,464	-815,160
Financial income	3	1,057,322	5,711,296
Financial expenses	4	-1,586,874	-5,752,700
Profit/loss before tax		14,373,912	-856,564
Tax on profit/loss for the year	5	-3,376,156	194
Profit/loss for the year		10,997,756	-856,370
Proposed profit appropriation/distribution of loss			
Retained earnings		10,997,756	-856,370
		10,997,756	-856,370

Financial statements 1 January – 31 December

Balance sheet

	Note	2016	2015
ASSETS			
Fixed assets			
Intangible assets			
Acquired trademarks		330,608	900,075
		<u>330,608</u>	<u>900,075</u>
Property, plant and equipment			
Other fixtures and fittings, tools and equipment		0	76,957
Property, plant and equipment in progress		117,540	229,325
		<u>117,540</u>	<u>306,282</u>
Investments			
Deposits		446,050	446,050
		<u>446,050</u>	<u>446,050</u>
Total fixed assets		<u>894,198</u>	<u>1,652,407</u>
Receivables			
Receivables from group entities		67,936,140	77,082,317
Other receivables		352,473	0
Deferred tax asset		642,649	3,339,978
Corporation tax		0	948,000
Prepayments		3,070,889	147,896
		<u>72,002,151</u>	<u>81,518,191</u>
Cash at bank and in hand		<u>691,150,530</u>	<u>13,577,072</u>
Total current assets		<u>763,152,681</u>	<u>95,095,263</u>
TOTAL ASSETS		<u>764,046,879</u>	<u>96,747,670</u>

Financial statements 1 January – 31 December

Balance sheet

	Note	2016	2015
EQUITY AND LIABILITIES			
Equity			
Share capital		1,000,000	1,000,000
Retained earnings		59,548,390	48,550,634
Total equity		<u>60,548,390</u>	<u>49,550,634</u>
Liabilities other than provisions			
Non-current liabilities other than provisions			
Payables to group entities		682,729,850	0
		<u>682,729,850</u>	<u>0</u>
Current liabilities other than provisions			
Trade payables		215,198	36,918
Payables to group entities		16,435,093	40,073,526
Corporation tax		234,226	0
Other payables		1,837,791	1,532,270
Badwill from business acquisitions		2,046,331	5,554,322
		<u>20,768,639</u>	<u>47,197,036</u>
Total liabilities other than provisions		<u>703,498,489</u>	<u>47,197,036</u>
TOTAL EQUITY AND LIABILITIES		<u><u>764,046,879</u></u>	<u><u>96,747,670</u></u>

Financial statements 1 January – 31 December

Statement of changes in equity

	Share capital	Retained earnings	Total
Equity at 1 January 2016	1,000,000	51,165,138	52,165,138
Net effect from adjustment of prior period misstatement	0	-2,614,504	-2,614,504
Equity at 1 January 2016, adjusted	1,000,000	48,550,634	49,550,634
Transferred over the profit appropriation	0	10,997,756	10,997,756
Equity at 31 December 2016	<u>1,000,000</u>	<u>59,548,390</u>	<u>60,548,390</u>

Financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Alpine Biomed ApS for 2016 has been prepared in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act with opt-ins from higher reporting classes.

As from 1 January 2016, the Company has implemented Act no. 738 of 1 June 2015. *This has entailed the following changes to recognition and measurement:*

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

The changes have no monetary effect on the income statement or the balance sheet for 2016 or for the comparative figures.

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

Material errors

The Company has identified material errors that affect previously presented annual reports:

During 2016, the Company discovered an error in respect of overstated royalty income recognised in the financial year 2012. Consequently, the royalty income related to 2012 has been reduced with DKK 2.6 million. The identified misstatement does not have an impact on the income statement for 2016.

Due to the nature and materiality of the error, it has been corrected as a material error in accordance with section 52 of the Danish Financial Statements Act.

The adjustment reduces the intercompany receivables from Natus Europe GmbH with DKK 2.6 million and equity with DK 2.6 million.

The effect of the identified error has been recognised directly in equity at the beginning of the year, and the comparative figures as well as the key figures have been restated. As the material error relates to 2012 the restatement of the comparative figures does only affect the Company's balance sheets.

Notes

1 Accounting policies (continued)

Income statement

Revenue

Revenue in the form of royalty income is recognised in the income statement concurrently with the group companies' utilisation of the Company's intangible patents and rights. Financial statements 1 January – 31 December

Gross profit

With reference to the section 32 of the Danish Financial Statements Act, Management has decided to disclose only gross profit.

Other operating income

Other operating income comprises amortisation of goodwill from business acquisition, which is an item of a secondary nature to the core activities of the Company.

Administrative costs

Administrative costs include expenses related to administration, intra group services, premises, payments under operating leases, etc.

Staff costs

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

Financial income and expenses

Financial income and expenses comprise interest income and expense, financial costs regarding finance leases, 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.

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.

Notes

1 Accounting policies (continued)

Tax on profit/loss for the year

Tax for the year comprises current tax for the year and changes (deferred tax for the year) in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement at the amount attributable to the profit/loss for the year and directly in equity at the amount attributable to entries directly in equity. Financial statements 1 January – 31 December

Balance sheet

Intangible assets

Patents and trademarks

Patents and trademarks are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining life of the patent, and licences are amortised over the contract period, however, not exceeding 10 years.

Patents and trademarks which are amortised over a longer period than 5 years, are estimated to support the earnings of the Company through use in much longer period.

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.

Property, plant and equipment

Property, plant 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 on which the asset is available for use. Indirect production overheads and borrowing costs are not recognised in cost.

Where individual components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items, which are depreciated separately.

The basis of depreciation is cost less any projected residual value after the end of the useful life. Depreciation is provided on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

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

Notes

1 Accounting policies (continued)

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively. Financial statements 1 January – 31 December

Gains and losses on the disposal of property, plant and equipment are stated 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.

Impairment of fixed assets

The carrying amount of intangible assets and property, plant and equipment as well as equity investments in group entities and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

Receivables

Receivables are measured at amortised cost, which corresponds to nominal value. The value is reduced by write-down for bad debts.

Prepayments

Prepayments comprise prepayment of costs incurred relating to subsequent financial years.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in 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 measured on the planned use of the asset or settlement of the liability, respectively.

However, deferred tax is not recognised on temporary differences relating to office buildings non-deductible for tax purposes and other items where temporary differences arise at the date of acquisition without affecting either profit/loss or taxable income.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation within the foreseeable future; 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. Any deferred net assets are measured at net realisable value.

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Deferred tax is measured in accordance with 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. Changes in deferred tax as a result of changes in tax rates are recognised in the income statement or equity, respectively.

Liabilities

Financial liabilities are recognised at the date of borrowing at cost, corresponding to the 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 cost and the nominal value is recognised in the income statement over the term of the loan together with interest expenses.

Other liabilities are measured at amortised cost, which usually corresponds to nominal value.

Badwill from business acquisitions

The Company acquired the Gastroenterology and Neurology business from the Medtronic Group.

The acquisition was accounted for in accordance with section 122 of the Danish Financial Statements Act, 'The acquisition method'.

At the time of the acquisition, net assets exceeded the purchase price. Accordingly, negative goodwill (badwill) was recognised in liabilities.

Amounts related to expected future losses or income from the bargain purchase, are recognised in the income statement as part of other operating income as they are realised.

Realisation is estimated to mirror the useful life of the acquired trademarks.

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 rates at the transaction date and 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 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 expense.

Financial statements 1 January – 31 December

Notes

	<u>2016</u>	<u>2015</u>
2 Staff costs		
Wages and salaries	7,279,852	8,779,278
Pensions	680,511	783,715
Other social security costs	24,267	31,002
	<u>7,984,630</u>	<u>9,593,995</u>
Average number of full-time employees	<u>9</u>	<u>10</u>
3 Financial income		
Interest received from group entities	0	1,659,586
Foreign exchange gains	1,057,322	4,051,710
Other financial income	0	0
	<u>1,057,322</u>	<u>5,711,296</u>
4 Financial expenses		
Interest paid to group entities	96,951	578,433
Foreign exchange losses	1,466,710	5,155,793
Other financial expense	23,213	18,474
	<u>1,586,874</u>	<u>5,752,700</u>
5 Tax on profit/loss for the year		
Current tax for the year	679,021	0
Deferred tax adjustment for the year	2,697,135	-194
	<u>3,376,156</u>	<u>-194</u>

Financial statements 1 January – 31 December

Notes

6 Contingent assets, liabilities and other financial obligations

Rental agreements and leases

The Company has entered into a leasehold agreement which can only be terminated with six months' notice to the end of a quarter. The Company's leasehold agreement in respect of the office facilities at Tonsbakken 16-18 Skovlunde can be terminated at 1 July 2018. The leasehold commitment amounts to DKK 1,365 thousand (2015: DKK 2,275 thousand)

The Company has entered into operating lease agreements on operating equipment. The operating lease commitments amount to DKK 3 thousand (2015: DKK 46 thousand).

Termination costs Business Lease Agreement

According to the Business Lease Agreement between Natus Manufacturing Ltd. and the Company, the Lease Agreement can be terminated upon a 3 months prior written notice under mutual agreed terms between Natus Manufacturing Ltd. and the Company.

It is Management's expectation that a termination of the Business Lease Agreement will result in a payment of exit costs to Natus Manufacturing Ltd. The exit cost will be settled under mutual agreement between Natus Manufacturing and the Company which in practice will amount to 3 months of leasing payments calculated in accordance with the terms stipulated in the Business Lease Agreement.

Contingent tax asset

Due to an adjustment of royalty income related to 2012 it is Management's assessment that the Company will receive a tax relief from the Danish Tax Authorities. The tax relief is expected to amount to DKK 651 thousand.

At the signing date of the annual report, no formal statement has been submitted by the Company to the Danish Tax Authorities.

Financial statements 1 January – 31 December

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7 Related parties

Control

Alpine Biomed ApS is part of the consolidated financial statements of Natus Manufacturing Limited, which is the smallest group in which the Company is included as a subsidiary.

The consolidated financial statements of Natus Manufacturing Limited can be obtained by contacting the parent company.