XPP TopCo ApS

Roskildevej 39, DK-2000 Frederiksberg

CVR no. 32 30 87 40

Annual Report 2016

Approved at the Company's annual general meeting on 28 March 2017

Chairman:

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Lars Bybjerg

Building a better
working world

Contents

Statement by the Executive Board

Today, the Executive Board have discussed and approved the annual report of XPP TopCo 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 our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2016 and of the results of the Group's and the Parent Company's operations and the 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 operations and financial matters and the results of the Group's and the Parent Company's operations and financial position.

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

Copenhagen, 28 March 2017

Executive Board:

Alfa Chi Kit Chan	Gareth Ridgwell Whiley

Independent auditors' report

To the shareholders of XPP TopCo ApS

Opinion

We have audited the consolidated financial statements and the parent company financial statements of XPP TopCo ApS for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as a consolidated statement of cash flows. The consolidated financial statements and the 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 financial position of the Group and the Parent Company at 31 December 2016 and of the results of the Group's and the Parent Company's operations as well as the 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 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 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 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 as 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.

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 Parent 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 about 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 additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent company financial statements.

Independent auditors' report

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional skepticism 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.
- 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 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 auditors' report

Based on our procedures, 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.

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

Søren Christiansen State Authorised Public Accountant	Morten Bjerregaard State Authorised Public Accountant

Management's review

Company details

Name	XPP TopCo ApS
Address, zip code, city	c/o Phase One A/S, Roskildevej 39, DK-2000 Frederiksberg
CVR no.	32 30 87 40
Established	4 February 2014
Registered office	Copenhagen
Financial year	1 January - 31 December
Telephone	+45 36 46 01 11
Fax	+45 36 46 02 22
Executive Board	Alfa Chi Kit Chan Gareth Ridgwell Whiley
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4, P.O. Box 250, DK-2000 Frederiksberg

Management's review

Financial highlights for the Group

DKK million	2016	2015	2014
Key figures			
Revenue	495.4	428.5	348.2
Gross profit	271.8	227.6	196.1
Earnings before interest, taxes, depreciation, and amortisation (EBITDA)	117.0	84.4	82.1
Operating profit	27.5	7.1	29.9
Profit/loss from financial income and expense	-20.5	-20.7	-12.0
Profit/loss for the year	**1.1**	**-19.2**	**15.4**
Total assets	**687.2**	**709.9**	**690.0**
Portion relating to investment in property, plant and equipment	8.2	1.4	5.2
Equity	**279.0**	**272.5**	**285.2**
Cash flows from operating activities	100.8	75.2	19.4
Net cash flows from investing activities	-41.7	-70.3	-498.5
Cash flows from financing activities	-19.6	15.9	504.5
Total cash flows	39.6	20.8	25.4
Financial ratios			
Gross margin ratio	55%	53%	56 %
Solvency ratio	41%	38%	41 %

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

Operating review for the Group

Main activities

The Group's business concept is to innovate, market and service high quality digital camera systems and software solutions. Our main customers are:

I. The world's most demanding professional photographers and serious private photo enthusiasts (WMDP). This segment comprise both customers buying our full camera systems and customers looking for our highly appraised image workflow software, Capture One Pro.

II. Industrial imaging end-users and integrators within Aerial mapping/documentation, cultural heritage, inspection, scientific, surveillance and homeland security applications. All our customers are characterised by their need for world-class image quality and a highly efficient workflow.

It is our goal to be the worldwide market leader within all our target customer groups and applications. In this way, we can ensure satisfactory earnings and at the same time attract and retain the best product developers and sales & marketing experts within digital imaging.

Development in activities and financial matters

The year 2016 overall shows satisfactory results with growth in all of our key businesses. The Group continued to strengthen its market position in existing as well as in new segments by introduction of new innovative solutions, and by servicing our target customers better using modern marketing tools and a stronger distribution. The Group's revenue amounted to DKK 495 million in 2016 (DKK 428 million in 2015). The Group's profit after tax amounted to DKK 1 million in 2016 (DKK -19 million in 2015). The operational profit has increased by 20 million which is a result of the increased sales less investments in strengthening the Group's capabilities which included integrating the Japanese business acquired in December 2015.

The Group continued to invest heavily in 2016. Phase One invests in both new market areas and distribution systems within digital photography as well as in the further development of the unique and patented series of portable digital camera solutions, lenses, backs and software.

The Group employed an average of 258 employees in 2016 against 178 in 2015. The increase in primarily a result of the Japanese acquisition.

New products

For the WMDP business, the Group launched the revolutionary XF 100MP camera system - a fully integrated system comprising the industry standard the upgradable XF camera, a brand new 100MP digital back and a range of new ultra high quality 'Blue Ring' lenses. The new camera system has been extremely well received and consolidates the Group's position as the market leader within the high-end Photography business. The lenses were developed and launched in cooperation with our strategic partner Schneider Kreuznach. The Group offers the widest range of professional lenses on the market for the medium-format shooter.

For the Software business, the Group has in 2016 launched a major update of the award winning Capture One RAW processing workflow software. Capture One supports the top 400 cameras shooting RAW, and has a strong and growing following among the World's most demanding photographers. The Group is the only camera manufacturer to offer a strong application software, which helps the top photographers optimise their creativity, quality and productivity. Our Software business has grown significantly in 2016.

The Industrial business of the Group continued to innovate its ultra durable high resolution IX aerial camera systems as well as the best performance lens and shutter systems. In addition the Phase One IX software solution was upgraded, including adding much better connectivity to other industrial workflow software. Phase One continue to invest and grow this business segment, which is becoming an increasingly important part of the company's total sales.

Management's review

Operating review for the Group

Outlook

The demand for best in class imaging workflow software, commercial drones and self driving cars are important overall growth trends which will benefit the Group in the coming years, on top of the general very positive outlook for high end digital imaging.

The Group will continue to innovate and invest in new imaging systems across all targeted market segments. In addition the Group will increase investments in building or leveraging world-class distribution systems.

As a result the Group expects continued growth in both revenue and earnings in 2017 and 2018.

The Group's global market share is estimated to constitute approximately 60% of the market for high-quality digital camera systems in the Professional market. The Group has significant growth opportunities in both the high end private photo-enthusiast market and especially in the many and fast growing industrial imaging market segments

The Group will continue to pursue acquisitions as well as adding new strategic partnerships to serve customers better.

Balance sheet

The Group's balance sheet total amounted to DKK 693 million (2015: DKK 713 million), of which current assets constitute 34% (2015: 30%).

Equity in the Group amounted to DKK 279 million at 31 December 2016 (31 December 2015: DKK 273 million).

Exchange rate risks

Due to the Group's activities in the USA and Asia, the profit and equity as well as cash flows are influenced by the USD and JPY exchange rate development. The Group's policy is to primarily offset the currency risk by matching purchases and sales in USD and JPY. Secondarily, Phase One partly hedges the excess exchange rate risk by means of forward exchange contracts.

In addition to the before mentioned currencies, the Group has considerable activities denominated in Euro and Israeli Shekel. Hedging is not made in respect of these currencies as it is not considered optimal from a risk and cost point-of-view.

Knowledge resources

It is essential for the future growth of the Group to attract and retain highly skilled and qualified professionals, including employees with expertise in development and sales & marketing of digital imaging systems, lenses, workflow software, etc.

In order to ensure premium product quality, the Group uses modern production processes. This requires a high competence level, and considerable resources are invested in development of the Group's products and in maintaining the skills of the Group's employees.

Corporate Social Responsibility

The Group is a knowledge intensive group and its staff is considered the most important resource and an important part of the Group's corporate social responsibility. The Group wants to be an attractive place to work which can attract and maintain qualified and dedicated employees. In 2016, the Work Environment Committee held several meetings evaluating and optimizing the work environment. The Work Environment Committee is carrying out periodical measurements of employee satisfaction and historically these show a high degree of satisfaction in line with the Group's goal. Next survey is scheduled to be carried out during 2017.

Management's review

Operating review for the Group

The Group perceives human rights as closely linked to employee rights in the Group's enterprises and at the Group's suppliers. Consequently, the Group adopted a Code of Conduct for Employee Rights by end of 2015. Among other things, the Code of Conduct includes elimination of discrimination with respect to employment based on age, gender, religion or race. The Group has not measured the effect of the implementation of said Code of Conduct.

The Group does not carry out production activities which has a significant impact on the environment. Therefore the Group has not prepared a environment policy or a climate policy.

Other leadership posts comprise the Executive Board, middle managers and team managers. The policy of the Group for women in other leadership roles is to have the best qualified candidates and at the same time enhance the qualifications of talented female leaders. The Group aims that at least one male and one female candidate are among the top-three candidates for other leadership roles. At present, the number of female leaders is unchanged compared to last year.

Goals and policies for the underrepresented gender

The Group believes that diversity among its employees, including gender balance, contributes positively to the work environment and strengthens the Group's performance and competitiveness. During 2016, the share of female employees has increased.

In connection with the change of ownership of the Group in March 2015, a new Executive Board was elected which consisted of two men. The Group aims that at least one male and one female leader must be represented in the Board of Directors appointed at the general meeting by the end of 2018. At present there are no female members of the Executive Board.

Anti-corruption

The Group policy related to anti-corruption, secures that we act according to high ethical standard forbid the participation in any kind of bribery. The policy was adopted in the last part of 2015 and implemented in the early part of 2016. Management are not aware of any violation of the policy.

Subsequent events

No events have occurred which affect the consolidated financial statements and the parent company financial statements for 2016.

Operating review for the parent company

The parent company's revenue amounted to DKK 0 million in 2016 (DKK 0 million in 2015). The parent company's profit after tax amounted to DKK 1 million in 2016 (DKK -19 million in 2015).

The parent company's equity amounted to DKK 279 million at 31 December 2016 (DKK 273 million at 31 December 2015).

Besides the above mentioned no other issues regarding the parent company are relevant, which are not already mentioned in the operating review for the Group.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Income statement

		Consolidated		Parent company	
Note	DKK'000	2016	2015	2016	2015
2	Revenue	495,376	428,502	0	0
	Production costs	-223,530	-200,867	0	0
	Gross margin	271,846	227,635	0	0
3	Distribution costs	-95,530	-82,218	0	0
3	Development costs	-73,062	-69,972	0	0
3, 4	Administrative expenses	-39,900	-32,564	-32	-31
3	Amortisation of goodwill and other intangible assets in connection with business combination	-35,813	-35,813	0	0
	Operating profit	27,541	7,068	-32	-31
5	Share of profit in subsidiaries after tax	0	0	1,135	-18,923
6	Share of profit in associates after tax	0	-3,057	0	0
7	Financial income	4,887	250	0	0
8	Financial expenses	-25,389	-20,915	-2	-280
	Profit/loss before tax	7,039	-16,654	1,101	-19,234
9	Tax on profit for the year	-5,931	-2,507	7	73
	Profit/loss for the year	1,108	-19,161	1,108	-19,161

Consolidated financial statements and parent company financial statements for the year ended 31 December

Balance sheet

Note	DKK'000	Consolidated 2016	Consolidated 2015	Parent company 2016	Parent company 2015
	ASSETS				
	Non-current assets				
10	**Intangible assets**				
	Goodwill	113,035	119,594	0	0
	Completed development projects	38,491	49,967	0	0
	Patents and licences	19,834	23,393	0	0
	Development projects under construction	8,277	6,022	0	0
	Other intangible assets	261,433	290,717	0	0
		441,070	489,693	0	0
11	**Property, plant and equipment**				
	Leasehold improvements	0	201	0	0
	Fixtures and fittings, tools and equipment	13,589	11,468	0	0
		13,589	11,669	0	0
	Investments				
5	Investments in group enterprises	0	0	279,261	272,728
6	Investments in associates	0	0	0	0
		0	0	279,261	272,728
	Total non-current assets	454,659	501,362	279,261	272,728
	Current assets				
12	**Inventories**	94,337	105,441	0	0
	Receivables				
	Trade receivables	43,667	45,856	0	0
	Company tax receivable	520	1,552	0	0
	Amounts owed by group enterprises	2,298	1,065	9,132	6.183
	Other receivables	3,511	6,376	0	0
	Prepayments	939	1,116	0	0
		50,935	55,965	9,132	6.183
	Cash at bank and in hand	87,280	47,122	0	28
	Total current assets	232,552	208,528	9,132	6.211
	TOTAL ASSETS	687,211	709,890	288,393	278,939

Consolidated financial statements and parent company financial statements for the year ended 31 December

Balance sheet

Note	DKK'000	Consolidated 2016	Consolidated 2015	Parent company 2016	Parent company 2015
	EQUITY AND LIABILITIES				
13	**Equity**				
	Share capital	2,741	2,741	2,741	2,741
	Reserve for net revaluation according to the equity method	0	0	10,146	3,613
	Retained earnings	276,262	269,756	266,116	266,143
	Total equity	279,003	272,497	279,003	272,497
	Provisions				
14	Deferred tax	74,505	84,862	0	0
	Other provisions	5,564	5,135	0	0
	Total provisions	80,069	89,997	0	0
15	**Non-current liabilities other than provisions**				
	Credit institutions	215,995	240,474	0	0
	License commitments	7,049	8,189	0	0
	Lease commitments	5,886	4,757	0	0
		228,930	253,420	0	0
	Current liabilities				
15	Credit institutions	23,223	18,000	8	0
15	License commitments	1,179	1,142	0	0
15	Lease commitments	1,176	1,524	0	0
	Trade payables	23,917	34,181	0	0
	Income tax receivables	10,174	8,407	9,356	6,412
	Other payables	39,540	30,722	26	30
		99,209	93,976	9,390	6,442
	Total liabilities other than provisions	328,139	347,396	9,390	6,442
	TOTAL EQUITY AND LIABILITIES	687,211	709,890	288,393	278,939

1 **Accounting policies**
16 **Contractual obligations and contingencies**
17 **Collateral**
18 **Staff costs**
19 **Related party disclosures**

Consolidated financial statements and parent company financial statements for the year ended 31 December

Statement of changes in equity

Note	DKK'000	Consolidated: Share capital	Retained earnings	Total
	Equity at 1 January 2015	2,741	282,455	285,196
	Transferred, see profit appropriation	0	-19,161	-19,161
	Value adjustments of hedging instruments at 31 December	0	-2,022	-2,022
	Foreign currency translation adjustments, foreign subsidiaries	0	8,743	8,743
	Tax on hedging instruments	0	475	475
	Tax on other changes in equity	0	-734	-734
	Equity at 1 January 2016	2,741	269,756	272,497
	Transferred, see profit appropriation	0	1,108	1,108
	Value adjustments of hedging instruments at 31 December	0	2,008	2,008
	Foreign currency translation adjustments, foreign subsidiaries	0	4,021	4,021
	Tax on hedging instruments	0	-442	-442
	Tax on other changes in equity	0	-189	-189
	Equity at 31 December 2016	2,741	276,262	279,003

Note	DKK'000	Parent company: Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
	Equity at 1 January 2015	2,741	16,074	266,381	285,196
20	Transferred, see profit appropriation	0	-18,923	-238	-19,161
	Value adjustments in subsidiaries	0	6,462	0	6,462
	Equity at 1 January 2016	2,741	3,613	266,143	272,497
20	Transferred, see profit appropriation	0	1,135	-27	1,108
	Value adjustments in subsidiaries	0	5,398	0	5,398
	Equity at 31 December 2016	2,741	10,146	266,116	279,003

Consolidated financial statements and parent company financial statements for the year ended 31 December

Cash flow statement

Note	DKK'000	Consolidated 2016	Consolidated 2015
	Cash flows from operating activities		
	Profit for the year	1,108	-19,161
21	Adjustments	116,333	102,875
22	Changes in working capital	16,475	21,711
	Cash generated from operating activities before financial items	133,916	105,425
	Interest received	423	250
	Interest paid	-16,509	-18,766
	Cash generated from operating activities before tax	117,830	86,909
	Taxes paid	-17,005	-11,672
		100,825	75,237
	Cash flows from investing activities		
	Acquisition of property, plant and equipment	-8,174	-1,376
	Acquisition of intangible assets	-33,490	-38,041
	Disposal of associates	0	13,994
	Acquisition of subsidiaries and activities	0	-44,846
		-41,664	-70,269
	Cash flows from financing activities		
	Increase/decrease in amounts owed to credit institutions and installments on lease commitments	-19,578	15,872
		-19,578	15,872
	Cash flows from operating, investing and financing activities	39,574	20,840
	Cash and cash equivalents at the beginning of the period	47,122	25,894
	Foreign exchange adjustments etc.	584	388
	Cash and cash equivalents at 31 December	87,280	47,122

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

1 Accounting policies

The annual report for 2016 has been prepared in accordance with the provisions applying to class C enterprises (large) under the Danish Financial Statements Act.

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement of intangible assets and property, plant and equipment. In future, residual values of intangible assets and property, plant and equipment are subject to annual reassessment of residual values. 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.

The above change does not impact the income statement or the balance sheet for 2016 or the comparative figures.

Apart from the above change as well as 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.

Consolidated financial statements

The consolidated financial statements comprise the parent company, XPP TopCo ApS, and subsidiaries in which XPP TopCo ApS directly or indirectly holds more than 50 % of the voting rights. Enterprises in which the Group holds between 20% and 50% of the voting rights and over which it exercises significant influence, but which it does not control, are considered associates.

The consolidated financial statements have been prepared as a consolidation of the Parent Company's and the individual subsidiaries' financial statements, which are prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains in so far as they do not reflect impairment.

Business combinations

Enterprises acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation.

Acquisitions of enterprises are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted and announced plans to restructure the acquired enterprise in connection with the acquisition. The tax effect of the restatement of assets and liabilities is taken into account.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, 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, not exceeding 20 years. Any excess of the fair values of the identifiable assets and liabilities acquired over the cost of the acquisition (negative goodwill), representing an anticipated adverse development in the acquired enterprises, is recognised in the balance sheet as deferred income and recognised in the income statement as the adverse development is realised. Negative goodwill not related to any anticipated adverse development is recognised in the balance sheet at an amount corresponding to the fair value of non-monetary assets. The amount is subsequently recognised in the income statement over the average useful lives of the non-monetary assets.

Goodwill and negative goodwill from acquired enterprises can be adjusted until the end of the year following the year of acquisition.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

1 Accounting policies (continued)

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 at the date of payment are recognised in the income statement as financial income or 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 annual report is recognised in the income statement as financial income or expenses.

Foreign subsidiaries and associates are considered separate entities. The income statements are translated at the average exchange rates for the month, and the balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of the 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 at the balance sheet date are recognised directly in equity.

Foreign exchange adjustments of the intra-group balance with independent foreign subsidiary which is considered part of the investment in the subsidiary are recognised directly in equity.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Fair value adjustments of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with fair value adjustments of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised in other receivables or other payables and in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity must be transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously recognised in equity must be transferred to the income statement in the period in which the hedged item affects the income statement.

Fair value adjustment of derivative financial instruments that are not classified and/or do not qualify for hedge accounting are recognised in the income statement on a current basis.

Fair value adjustments of derivative financial instruments held to hedge net investments in separate foreign subsidiaries or associates are recognised directly in equity.

Income statement

Revenue

Revenue is recognised in the income statement provided that delivery and transfer of risk to the buyer has taken place before year end and that the income can be reliably measured and is expected to be received. Revenue is measured ex. VAT and taxes charged on behalf of third parties and discounts granted in connection with the sale.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

1 Accounting policies (continued)

Production costs

Production costs comprise costs, including depreciation and amortisation and salaries, incurred in generating the revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases.

Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns etc. during the year are recognised as distribution costs. Also, costs relating to sales staff, advertising, exhibitions, etc.

Development costs

Development costs comprise costs that do not qualify for capitalisation and amortisation of capitalised development costs.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for Group management and administration, including expenses for administrative staff, office premises and office expenses, and depreciation.

Other operating income and other operating costs

Other operating income and other operating costs comprise items secondary to the principal activities of the enterprises, including gains and losses on disposal of intangible assets and property, plant and equipment.

Profits/losses from investments in subsidiaries and associates

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement of the parent company after full elimination of intra-group profits/losses.

The proportionate share of the results after tax of the associates is recognised in both the consolidated and the parent company income statement after elimination of the proportionate share of intra-group profits/losses.

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on receivables and 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 on profit/loss for the year

The Company is comprised by the joint taxation of the Danish companies in the XPP TopCo ApS Group.

XPP TopCo ApS is the administrative company under the joint taxation and accordingly pays all Danish corporation taxes to the tax authorities.

On payment of joint taxation contributions, the current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. Companies with tax losses receive joint taxation contributions from other companies that have used the tax losses to reduce their own taxable profit.

The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to changes directly recognised in equity is recognised directly in equity.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Intangible assets

On initial recognition, intangible assets are measured at cost.

Goodwill

Goodwill is amortised over its estimated useful life determined on the basis of Management's experience of the specific business areas. Goodwill is amortised on a straight-line basis over a maximum amortisation period of 20 years, longest for strategically acquired enterprises with strong market positions and long-term earnings profiles.

Development projects, patents and licences

Development costs comprise costs, salaries and amortisation directly or indirectly attributable to the Group's development activities.

Development projects that are clearly defined and identifiable, where the technical utilisation degree sufficient resources and a potential future market or development opportunities in the Group are evidenced, and where the Group intends to produce, market or use the project, are recognised as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling and administrative expenses and development costs. Other development costs are recognised in the income statement when incurred.

Development costs that are recognised in the balance sheet are measured at the lower of cost less accumulated amortisation and impairment and the recoverable amount.

On the completion of the development projects, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually two years.

The basis of amortisation is based on the residual value of the asset at the end of its useful life and is reduced by impairment losses, if any. The amortisation period and the residual value are determined at the time of acquisition and are 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 amortisation period or the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

Other intangible assets

Other intangible assets comprising intangible assets acquired in connection with a business combination are measured at cost less accumulated amortisation and impairment. Other intangible assets are amortised over the estimated useful lives, which usually is:

- Trademarks and trade names are usually amortised over 10-15 years.
- Developed technology are usually amortised over 10 years.
- The amortisation period for customer relationship is dependent on the individual customer relationship. Customer relationships are usually amortised over 12 years.

Other intangible assets are recognised in connection with a strategically acquired enterprise with a strong market position and a long term earnings profile. The estimated useful lives of the acquired intangibles assets are assessed to exceed 5 years.

Patents and licences are measured at cost less accumulated amortisation and impairment. Patents are amortised on a straight-line basis over the remaining term of the patent, and licenses are amortised over the term of license, however not exceeding 10 years.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

1 Accounting policies (continued)

The basis of amortisation is based on the residual value of the asset at the end of its useful life and is reduced by impairment losses, if any. The amortisation period and the residual value are determined at the time of acquisition and are 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 amortisation period or the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the sales price less disposal costs and the carrying amount at the date of disposal.

The gains and losses are recognised in the income statement as other operating income and other operating costs, respectively.

Property, plant and equipment

Leasehold improvements as well as plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use.

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.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful life is 3 years.

The basis of depreciation is based on the residual value of the asset at the end of its useful life and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are 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 depreciation period or the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

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 and losses are recognised in the income statement as other operating income and other operating costs, respectively.

Leases

Leases for non-current assets that transfer substantially all the risks and rewards incident to ownership to the Group (finance leases) are initially measured in the balance sheet at the lower of fair value and the net present value of the future lease payments. In calculating the net present value of future lease payments, the discount factor is the interest rate implicit in the lease or an alternative rate. Assets held under finance leases are subsequently treated as the Group's other non-current assets.

The capitalised residual lease obligation is recognised in the balance sheet as a liability and the interest implicit in the lease is recognised in the income statement over the lease term.

All other leases are defined as operating leases. Operating lease payments and other lease payments are recognised in the income statement over the lease term. The Group's total liabilities relating to operating leases and other leases are disclosed in the notes under contingent liabilities.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

1 Accounting policies (continued)

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured according to the equity method.

Investments in subsidiaries and associates are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealised intra-group profits and losses and plus or minus any residual value of positive or negative goodwill determined in accordance with the purchase method.

Investments in subsidiaries and associates with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down if the amount owed is irrecoverable. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluation of investments in subsidiaries and associates is recognised in the reserve for net revaluation according to the equity method in equity to the extent that the carrying amount exceeds cost. Dividends from subsidiaries which are expected to be adopted before the approval of the annual report of Phase One A/S are not recognised in the reserve for net revaluation.

On acquisition of subsidiaries, the purchase method is applied, see Consolidated financial statements above.

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 expected sales price.

Impairment of non-current assets

The carrying amount of intangible assets and property, plant and equipment 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.

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

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.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as maintenance and depreciation of production machinery, buildings and equipment.

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 expected sales price.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost. Write-down is made for bad debt losses where there is an objective indication that a receivable has been impaired according to an individual assessment.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity

Reserve for net revaluation according to the equity method

Net revaluation of investments in subsidiaries and associates 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.

The reserve cannot be recognised at a negative amount.

Dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Income 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.

In accordance with the joint taxation rules, the liability of the subsidiaries for payment of corporation taxes to the tax authorities is settled as the joint taxation contributions are paid to the administrative company.

Joint taxation contribution receivables and payables and foreign tax receivables and payables are recognised in the balance sheet as "Income tax receivables" or "Income tax payables".

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised under other non-current assets 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 rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Other provisions

Provisions are recognised when, as a result of past events, the Group 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.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

1 **Accounting policies (continued)**

Other provisions comprise obligations to make good any defects within the warranty period of up to three years. Provisions for warranties are measured and recognised based on past experience.

Liabilities

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.

Financial liabilities also include the capitalised residual obligation on finance leases.

Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprises payments received concerning income in subsequent years.

Cash flow statement

The cash flow statement shows the Group'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 Group'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 Group's share of the profit/loss adjusted for non-cash operating items, changes in working capital and corporation tax paid.

Cash flows from investing activities

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

Cash flows from financing activities

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

Financial ratios

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

Gross margin ratio	$\frac{\text{Gross margin x 100}}{\text{Revenue}}$
Equity ratio	$\frac{\text{Equity at year end x 100}}{\text{Total equity and liabilities at year end}}$

2 **Segment information**

The Group has not disclosed segment information cf. section 96(1) of the Danish Financial Statements Act.

The market for medium format camera solutions consists of very few competitors. On this basis, specific segment information is not disclosed as this could have a negative impact on the Group's competitive position.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

3 Depreciation and amortisation

DKK'000	Consolidated 2016	Consolidated 2015
Intangible assets	82,986	72,850
Property, plant and equipment	6,505	4,445
	89,491	77,295

Depreciation and amortisation are recognised as follows in the consolidated financial statements and the parent company financial statements:

	2016	2015
Distribution costs	4,053	450
Development costs	43,991	37,037
Administration costs	5,634	3,995
Amortisation of goodwill and other intangible assets in connection with business combination	35,813	35,813
	89,491	77,295

4 Fees paid to auditors appointed at the annual general meeting

	Consolidated		Parent company	
DKK'000	2016	2015	2016	2015
Fee regarding statutory audit	652	593	31	31
Tax assistance	254	253	0	0
Assurance engagements	19	18	0	0
Other assistance	53	47	0	0
	978	911	31	31

5 Investments in group enterprises

DKK'000	Parent company 2016	Parent company 2015
Cost at 1 January	269,115	269,115
Additions	0	0
Cost at 31 December	269,115	269,115
Adjustment to net asset value at 1 January	3,613	16,074
Profit for the year	1,135	-18,923
Value adjustments	5,398	6,462
Adjustment to net asset value at 31 December	10,146	3,613
Carrying amount at 31 December	279,261	272,278

Name	2016	2015
XPP MidCo ApS, Copenhagen, Denmark	100%	100%

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

6 Investments in associates

	Consolidated	
DKK'000	2016	2015
Cost at 1 January	0	14,080
Additions in connection with business combination	0	0
Disposals	0	-14,080
Cost at 31 December	0	0
Value adjustments at 1 January	0	1,326
Profit for the year	0	-444
Foreign exchange adjustments	0	1,645
Disposals	0	-2,527
Value adjustments at 31 December	0	0
Carrying amount at 31 December	0	0

The shares in Mamiya Digital Imaging Co., Ltd. were sold at 1 December 2015. A loss of DKK 2,613 thousand has been recognised in the income statement.

7 Financial income

	Consolidated		Parent company	
DKK'000	2016	2015	2016	2015
Interest income	3	39	0	0
Foreign exchange gain	4,464	211	0	0
Other	420	0	0	0
	4,887	250	0	0

8 Financial expenses

Interest expenses	14,423	15,893	2	280
Amortisation of financing costs	2,313	2,149	0	0
Fair value adjustments of derivative financial instruments	6,564	0	0	0
Foreign exchange losses	2,089	2,873	0	0
	25,389	20,915	2	280

9 Tax on profit for the year

Current corporation tax	9,272	6,169	-7	-73
Adjustment of deferred tax	-10,393	-8,312	0	0
Other current tax	7,509	4,027	0	0
Adjustment of current tax relating to previous years	-457	474	0	0
Adjustment of deferred tax relating to previous years	0	149	0	0
	5,931	2,507	-7	-73

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

10 Intangible assets

DKK'000	Consolidated							
	Goodwill	Development completed	Patents and licences	Development in progress	Trademarks and trade names	Developed technology	Customer relationships	Total
Cost at 1 January 2016	130,624	102,192	25,477	6,022	119,000	136,000	93,000	612,315
Foreign exchange adjustments	0	1,189	200	420	0	0	0	1,809
Additions	0	0	0	30,079	0	0	0	30,079
Transferred	0	28,344	0	-28,244	0	0	0	100
Cost at 31 December 2016	130,624	131,725	25,677	8,277	119,000	136,000	93,000	644,303
Amortisation at 1 January 2016	11,030	52,225	2,084	0	14,933	28,100	14,250	116,092
Foreign exchange adjustments	0	1,007	-101	0	0	0	0	906
Amortisation	6,530	45,313	3,860	0	7,933	13,600	7,750	84,986
Amortisation at 31 December 2016	17,560	98,545	5,843	0	22,866	41,700	22,000	201,984
Carrying amount at 31 December 2016	113,034	38,491	19,834	8,277	96,134	94,300	71,000	441,070
Amortised over	20 years	2 years	5-10 years	-	15 years	10 years	12 years	

11 Property, plant and equipment

DKK'000	Consolidated		
	Leasehold improvements	Fixtures and fittings, tools and equipment	Total
Cost at 1 January 2016	1,071	30,991	32,062
Foreign exchange adjustments	0	380	0
Additions	0	8,174	8,174
Disposals	0	-795	-795
Cost at 31 December 2016	1,071	38,750	39,441
Depreciation at 1 January 2016	870	19,464	20,334
Foreign exchange adjustments	0	-112	-112
Depreciation	201	6,304	6,505
Disposals	0	-795	-795
Depreciation at 31 December 2016	1,071	24,861	25,932
Carrying amount at 31 December 2016		13,589	13,589
Hereof finance leased assets	0	6,584	6,584
Depreciated over	3 years	3 years	

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

12 Inventories

DKK'000	Consolidated 2016	Consolidated 2015
Raw materials and consumables	41,275	31,993
Work in progress	20,568	25,110
Finished goods and goods for resale	32,494	48,338
	94,337	105,441

13 Share capital

The share capital comprises:

274,065,757 shares of DKK 0.01 each.

Each share carries one vote.

Changes in share capital

DKK'000	2016	2015	2014
Share capital 1 January	2,741	2,741	0
Establishment and capital increase	0	0	2,741
	2,741	2,741	2,741

14 Deferred tax

DKK'000	Consolidated 2016	Consolidated 2015
Deferred tax at 1 January	-84,862	-91,204
Foreign exchange adjustments	-36	0
Acquisition of subsidiaries and activities	0	-1,821
Adjustment for the year of deferred tax	10,393	8,312
Adjustment of deferred tax relating to previous years	0	-149
Deferred tax at 31 December	-74,505	-84,862
Deferred tax relates to:		
Intangible assets	-79,058	-89,297
Property, plant and equipment	232	76
Current assets	2,649	1,854
Provisions	1,163	1,731
Amortisation of financing costs	509	774
	-74,505	-84,862

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

15 Amounts owed to credit institutions and lease commitments

DKK'000	Consolidated 2016	Consolidated 2015
The loans are recognised in the balance sheet as follows:		
Non-current liabilities other than provisions	228,930	253,420
Current liabilities other than provisions	25,578	20,666
Total loans	254,508	274,086
Non-current liabilities other than provisions falling due more than five years after the balance sheet date (carrying amount)	0	3,877

16 Contractual obligations and contingencies

The Group is subject to lease obligations which constitute DKK 9,438 thousand at 31 December 2016 (2015: DKK 9,244 thousand).

The Danish Group companies in the XPP TopCo Group are jointly taxed. The companies have joint and several unlimited liability for Danish corporation taxes in the joint taxation unit. Any subsequent corrections of the taxable income subject to joint taxation may entail that the companies' liability will increase. The Group as a whole is not liable to others.

17 Collateral

The shares in Phase One A/S have been provided as collateral for the subsidiary XPP BidCo ApS' loan to credit institution with a carrying amount of DKK 232,328 thousand at 31 December 2016.

18 Staff costs

DKK'000	Consolidated 2016	Consolidated 2015
Wages and salaries, remuneration and emoluments	130,453	107,037
Pensions	566	523
Social security costs	3,393	3,408
	134,412	110,968
Average number of full-time employees	258	178

In 2016 and 2015 the parent company's Executive Board has not received any remuneration.

19 Related party disclosure

The consolidated financial statements are comprised in the consolidated financial statements for Phase One Imaging Holdings Ltd. The consolidated financial statements can be retrieved by contacting the Company.

All transactions with related parties have been carried out in accordance with the arms-length principle.

Consolidated financial statements and parent company financial statements for the year ended 31 December

Notes

20 Appropriation of profit/loss

DKK'000	Parent 2016	Parent 2015
Recommended appropriation of profit/loss		
Reserve for net revaluation according to the equity method	1,135	-18,923
Transferred to retained earnings	-27	-238
	1,108	-19,161

21 Cash flow statement - adjustments

DKK'000	Consolidated 2016	Consolidated 2015
Interest income	-4,887	-250
Interest expenses	25,388	20,915
Depreciation	89,491	77,295
Tax on profit for the year	5,938	2,507
Changes in other provisions	405	-649
Profit in associates	0	3,057
	116,335	102,875

22 Cash flow statement - changes in working capital

Changes in receivables	11,026	-13,880
Changes in inventories	13,854	-17,077
Changes in short-term liabilities other than provisions	-8,405	-490
	16,475	-31,447