EMERSON
Climate Technologies

Emerson Climate Technologies - Transportation Solutions ApS

Axel Kiers Vej 5 A
8270 Højbjerg

CVR no. 34 46 55 25

Annual report 2016/17

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

29 January 2018

chairman

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Emerson Climate Technologies - Transportation Solutions ApS for the financial year 1 October 2016 – 30 September 2017.

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 Company's assets, liabilities and financial position at 30 September 2017 and of the results of the Company's operations for the financial year 1 October 2016 – 30 September 2017.

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

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

Aarhus, 29 January 2018
Executive Board

Kenneth Peter Cordes

Board of Directors

Mark Dunson
Chairman

Keith Nulton Browning

Alain Poncet

Kenneth Peter Cordes

KPMG

Independent auditor's report

To the shareholders of Emerson Climate Technologies - Transportation Solutions ApS

Opinion

We have audited the financial statements of Emerson Climate Technologies - Transportation Solutions ApS for the financial year 1 October 2016 – 30 September 2017 comprising income statement, balance sheet, statement of changes in equity 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 Company's assets, liabilities and financial position at 30 September 2017 and of the results of the Company's operations for the financial year 1 October 2016 – 30 September 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the 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 rules and requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibility for the 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 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.

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 made 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.

KPMG

Independent auditor's report

- 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.

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.

Aarhus, 29 January 2018
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Michael Mortensen
State Authorised
Public Accountant
MNE no. 34108

Management's review

Company details

Emerson Climate Technologies - Transportation Solutions ApS
Axel Kiers Vej 5 A
8270 Højbjerg

Telephone:	+45 7023 4444
Fax:	+45 7023 6044
Website:	www.emerson.com

CVR no.:	34 46 55 25
Established:	23 March 2012
Registered office:	Aarhus
Financial year:	1 October – 30 September

Board of Directors

Mark Dunson, Chairman
Keith Nulton Browning
Alain Poncet
Kenneth Peter Cordes

Executive Board

Kenneth Peter Cordes

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Bredskifte Allé 13
DK-8210 Aarhus V

Annual general meeting

The annual general meeting will be held on 29 January 2018.

Management's review

Financial highlights

DKK'000	2016/17	2015/16	2015	2014	2013
Key figures					
Gross profit/loss	7,471	23,422	55,868	30,834	-15,545
Operating profit/loss	-15,701	-2,514	24,659	2,105	-31,159
Profit/loss from financial income and expenses	6,393	-2,351	-30,189	19,055	5,956
Profit/loss for the year	-7,238	-7,029	-4,223	-3,970	-25,050
Total assets	234,798	262,722	340,766	436,614	408,382
Equity	102,650	109,888	116,917	121,140	125,110
Investment in property, plant and equipment	115	1,262	266	681	5,472
Ratios					
Return on invested capital	-48.5%	-10.4%	14.6%	1.1%	-16.0%
Current ratio	46.3%	44.8%	143.9%	163.3%	164.8%
Return on equity	-6.8%	-6.2%	-3.5%	-3.2%	-18.2%
Solvency ratio	43.7%	41.8%	34.3%	27.7%	30.6%
Average number of full-time employees	47	49	52	61	71

Financial ratios are calculated in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations & Ratios". The financial ratios have been calculated as follows:

Return on invested capital $$\frac{\text{Operating profit/loss} \times 100}{\text{Average invested capital}}$$

Current ratio $$\frac{\text{Current assets} \times 100}{\text{Current liabilities}}$$

Return on equity $$\frac{\text{Profit/loss from ordinary activities after tax} \times 100}{\text{Average equity}}$$

Solvency ratio $$\frac{\text{Equity ex. non-controlling interests at year end} \times 100}{\text{Total equity and liabilities at year end}}$$

Management's review

Operating review

Principal activities

Emerson Climate Technologies – Transportation Solutions Aps (the Company) provides electronics, communications and monitoring solutions to the transportation industry, specifically refrigerated container (reefer) controls, boiler controls, remote monitoring modems and refrigerated container monitoring systems for containers, including usage on board container ships and in-ship terminals. The Company operates within a broader entity, supplying compressors and compression products to the same industry, as well as land based applications, such as truck/trailer/bus and rail.

Development in activities and financial position

Results for the year were significantly affected by the broader marine transportation market downturn arising from low shipping rates, coming in at a total loss for 2016/17 of DKK 7,238 thousand. Management of the business took early steps to mitigate the impact of the market downturn without sacrificing the long-term growth potential of the business as a whole. Management considers the loss unsatisfactory judged on the basis of the income statement, but seen in the light of the long-term outlook for the business, results are considered satisfactory. A large part of the Company's revenue arises directly from new refrigerated container construction, a traditionally cyclical market segment which saw a drop in 2016 after highs in 2015. Market recovery began in 2017 and is expected to continue to grow in 2018, recovering in 2019 with growth beyond previous levels .

New products

The Company has a broad pipeline of new product development activities and launched a new wireless modem to the market during the 2017 financial year. The product immediately started generating sales in the second quarter and is expected to overtake volumes of the older generation product in 2018. Over the coming years, Management expects significant sales for this product as part of the vision towards complete transparency for refrigerated freight through remote monitoring.

Outlook

The prior year market slump was driven primarily by reduced shipping rates, which stems from an overinvestment in shipping capacity in 2013 through 2016 leading to a slowdown in new container construction. The same situation has been seen in the refrigerated container market with decreasing demand over the last three years based on the vessel overcapacity and rate drop. The market began with slow recovery at the beginning of the 2017 calendar year with increasing shipping rates, which had a strong impact on the demand for new container constructions significantly growing throughout the second half of 2017. The market situation in the first half of the 2018 financial year was improving, and the momentum is expected to persist throughout the 2018 calendar year. A stronger market situation is expected in the long term. This is based upon the continuous increase in the demand for transport of refrigerated goods, projected at an over 10% five-year CAGR. Furthermore, previous surges in reefer market expansion are expected to drive a replacement volume as current reefer fleets in the field will be obsolete within the coming years. As the market recovers, there will be an opportunity for the introduction of new products and services.

Management's review

Operating review

Intellectual capital

The Company possesses very large technical and application knowledge within its business areas. Knowledge and know-how have been accumulated over many years, and the background, education, and experience of the employees are essential to the intellectual capital of the Company.

The right combination of education and experience within the employee group is therefore critical. Documenting the existing domain knowledge and know-how in the Company is vital to the overall success of the business. The performance of the individual employee related to the agreed objectives is therefore subject to continuous evaluation.

Particular risks

Operating risks

The general risks are related to the global development in investments and operation of refrigerated sea containers due to the strong dependency on the global operation of the container shipping lines. Within container controls and boiler controls, the Company is also strongly influenced by the performance of a few significant key customers.

Financial risks

The Company's cash pool liabilities carry floating-rate interest and are raised in USD and thereby subject to interest rate and foreign exchange risks.

Currency risks

Since export sales account for a considerable part of revenue, the Company is exposed to foreign exchange rate risks, primarily fluctuations in the USD rate.

Credit risks

It is company policy always to hedge payments from external customers by means of bank guarantees, documentary credits or regular credit rating of the customer.

Environmental matters

No regulatory changes impact our business at the moment.

Research and development activities

The Company has developed a deep pipeline of products through an effective business development and marketing effort. Aside from the modem mentioned above, the Company is developing a new suite of enterprise software services, called ProAct Transport. These services focus on reducing customers' operating costs on refrigerated containers by applying analytics to data collected from the containers. This work is in conjunction with a number of Emerson entities globally, including Xian, China, Kennesaw, GA, and Sidney, OH. In order to meet the technical requirements of ProAct Transport, the Company is developing new wireless hardware devices to support the communication and data flow to the ProAct Transport applications. The services are expected to be launched to the market in the 2018 financial year.

Financial statements 1 October – 30 September

Income statement

DKK'000	Note	2016/17	2015/16
Gross profit		7,471	23,422
Distribution costs	2	-7,121	-7,164
Administrative expenses	2	-16,051	-18,772
Operating profit/loss		-15,701	-2,514
Financial income	3	7,953	29
Financial expenses	4	-1,560	-2,380
Profit/loss before tax		-9,308	-4,865
Tax on profit/loss for the year	5	2,070	-2,164
Profit/loss for the year	6	-7,238	-7,029

Financial statements 1 October – 30 September

Balance sheet

DKK'000	Note	2016/17	2015/16
ASSETS			
Fixed assets			
Intangible assets	7		
Completed development projects		11,772	18,624
Other intangible assets		59,477	69,792
Goodwill		102,287	113,054
Development projects in progress		11,294	0
		184,830	201,470
Property, plant and equipment	8		
Machinery		886	1,498
Fixtures and fittings, tools and equipment		2,687	3,487
		3,573	4,985
Total fixed assets		188,403	206,455
Current assets			
Inventories			
Raw materials and consumables		8,320	7,632
Finished goods and goods for resale		6,436	3,838
		14,756	11,470
Receivables			
Trade receivables		22,527	35,967
Receivables from group entities		524	2,837
Other receivables		321	254
Corporation tax		7,592	5,100
Prepayments	9	675	639
		31,639	44,797
Total current assets		46,395	56,267
TOTAL ASSETS		234,798	262,722

Financial statements 1 October – 30 September

Balance sheet

DKK'000	Note	2016/17	2015/16
EQUITY AND LIABILITIES			
Equity	10		
Contributed capital		80	80
Reserve for development costs		8,909	0
Retained earnings		93,661	109,808
Total equity		102,650	109,888
Provisions	11		
Provisions for deferred tax		29,699	24,070
Other provisions		2,340	3,182
Total provisions		32,039	27,252
Liabilities other than provisions			
Current liabilities other than provisions			
Prepayments received from customers		9,396	7,156
Trade payables		14,274	26,971
Payables to group entities		66,746	80,247
Other payables		9,693	11,208
		100,109	125,582
Total liabilities other than provisions		100,109	125,582
TOTAL EQUITY AND LIABILITIES		234,798	262,722

Financial statements 1 October – 30 September

Statement of changes in equity

	Contributed capital	Reserve for development costs	Retained earnings	Total
Equity at 1 October 2016	80	0	109.808	109.888
Transfers, reserves	0	8.909	-8.909	0
Transferred over the distribution of loss	0	0	-7.238	-7.238
Equity at 30 September 2017	80	8.909	93.661	102.650

Financial statements 1 October – 30 September

Notes

1 Accounting policies

The annual report of Emerson Climate Technologies - Transportation Solutions ApS for 2016/17 has been prepared in accordance with the provisions applying to reporting class C medium-sized entites under the Danish Financial Statements Act with opt-in from higher reporting classes.

As from 1 October 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.
- Going forward, an amount corresponding to the capitalised development costs will be tied to the restricted reserve "Reserve for development costs" under equity. The reserve cannot be used for dividend, distribution or to cover losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to the distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be re-versed. If a write-down of development costs is subsequently reversed, the reserve will be reestablished. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

The changes have no monetary effect on the income statement or the balance sheet for 2016/17 or on 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.

In accordance with section 86(4) of the Danish Financial Statements Act, the Company has chosen not to prepare a cash flow statement.

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, 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 expenses.

Financial statements 1 October – 30 September

Notes

1 **Accounting policies (continued)**

Income statement

Revenue

When sales contracts that consist of several separate components are concluded, the contract amount is allocated by the individual components based on the relative fair value approach. The separate components are recognised as revenue when the criteria applicable to sale of goods and services have been met.

A contract is allocated by the individual components when the fair value of these individual components can be reliably measured and when each component represents a separate value to the buyer. Sales components are deemed to represent a separate value to the buyer when the component is individually identifiable and is normally sold separately.

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

Income from the sale of goods for resale and finished goods is recognised in revenue when transfer of the most significant rewards and risks to the buyer has taken place and provided that the income can be reliably measured and payment is expected to be received. The date of the transfer of the goods relies on standard terms of delivery based on Incoterms® 2010.

Income from the sale of services, comprising service contracts, is recognised in revenue on a straight-line basis as delivered as the services are delivered in the form of an indefinite number of actions over a specific period of time.

Production costs

Production costs comprise costs, including depreciation, amortisation, wages and salaries, incurred to generate revenue for the year. Commercial entities recognise their cost of sales, whereas production entities recognise production costs incurred to generate revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases and depreciation of production plant.

Production costs also comprise research and development costs that do not qualify for capitalisation and amortisation of capitalised development costs, other intangible assets and goodwill.

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 and depreciation are recognised as distribution costs.

Administrative expenses

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

Financial statements 1 October – 30 September

Notes

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses comprise interest income and expense, gains and losses on 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 covered by Danish legislation on compulsory joint taxation.

The affiliated company, Damcos Holding A/S, is the administrative company for the joint taxation and consequently settles all payments of Danish corporation tax to the tax authorities.

Current Danish corporation tax is allocated through the payment of joint taxation contributions between the jointly taxed companies in proportion to their taxable income. Accordingly, the companies with tax losses receive joint taxation contributions from companies that have been able to use the losses to reduce their own taxable profit.

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

Development projects

Development costs comprise costs, wages, salaries and amortisation directly and indirectly attributable to development activities.

Development projects that are clearly defined and identifiable, where the technical feasibility, sufficient resources and a potential future market or development opportunities are evidenced, and where the Company 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 costs and administrative expenses as well development costs. Other development costs are recognised in the income statement as incurred.

Development costs recognised in the balance sheet are measured at cost less accumulated amortisation and impairment losses.

Upon completion of development work, development costs are amortised on a straight-line basis over the estimated useful lives. The amortisation period is usually 10 years, which is fixed on the basis of experience gained by Management and longest for strategically acquired projects.

Financial statements 1 October – 30 September

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1 Accounting policies (continued)

Other intangible assets

Other intangible assets comprise trademarks, customer relationships, non-competition agreements and backlog acquired in corporate acquisition and are measured at cost less accumulated amortisation and impairment losses. Other intangible assets are amortised on a straight-line basis over the expected useful life to match the expected earnings profile. Expected useful lives are fixed on the basis of experience gained by Management. The expected useful lives are as follows:

Trademarks	11 years
Customer relationships	10-11 years
Non-competition agreements	1-3 year
	year

Goodwill

Acquired goodwill is measured at cost less accumulated amortisation and impairment losses. Goodwill is amortised on a straight-line basis over 15 years, thus matching the expected earnings profile.

The useful life and residual value for intangible assets are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Property, plant and equipment

Machinery 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 on which the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub suppliers and wages and salaries.

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 depreciable amount, which is calculated as cost less any projected residual values after the end of the useful life, is depreciated on a straight-line basis over the estimated useful life. The estimated useful lives are as follows:

Machinery	5-10 years
Fixtures and fittings, tools and equipment	3-10 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

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 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.

Financial statements 1 October – 30 September

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1 Accounting policies (continued)

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.

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 forecast net cash flows from the use of the asset or the group of assets, including forecast 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, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as the maintenance of depreciation of production machinery, buildings and equipment. Borrowing costs are not included in cost.

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 selling price.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Equity

Dividends

The expected dividends payment for the year is disclosed as a separate item under equity.

Financial statements 1 October – 30 September

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1 Accounting policies (continued)

Reserve for development costs

The reserve for development costs comprises capitalised development costs. The reserve cannot be used for dividends distribution or the coverage of losses. If the recognised development costs are sold or in other ways excluded from the Company's operations, the reserve will be dissolved and transferred directly to distributable reserves under equity. If the recognised development costs are written down, the part of the reserve corresponding to the write-down of the developments costs will be reversed. If a write-down of development costs is subsequently reversed, the reserve will be re-established. The reserve is reduced by amortisation of capitalised development costs on an ongoing basis.

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.

Joint tax contribution liabilities and receivables are recognised in the balance sheet as "Corporation tax liability' or "Corporation tax receivable".

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 and other items where temporary differences 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 Management's planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carry forwards, are recognised at the expected value of their utilisation: either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is measured in accordance with the tax rules and at the tax rates applicable in the respective countries at the balance sheet dare when the deferred tax is expected to crystallise as current tax.

Provisions

Other provisions comprise anticipated costs related to warranties. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Warranties comprise obligations to make good any defects within the warranty period of one to five years. Provisions for warranties are measured at net realisable value and recognised based on past experience.

Liabilities other than provisions

Financial liabilities are recognised at cost at the date of borrowing, corresponding to the proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are measured at amortised cost using the effective interest method. 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.

Financial statements 1 October – 30 September

Notes

1 Accounting policies (continued)

Finance lease obligation comprise the capitalised residual lease obligation of finance leases.

Other liabilities are measured at net realisable value.

Prepayments and deferred income

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

DKK'000	2016/17	2015/16
2 Staff costs and incentive schemes		
Wages and salaries	25,901	29,137
Pensions	2,230	2,373
Other social security costs	0	216
Other staff costs	186	-1
	28,317	31,725

Staff costs are recognised in the consolidated financial statements and parent company financial statements as:		
Production	20,907	22,390
Distribution	2,904	3,451
Administration	4,506	5,884
	28,317	31,725

In accordance with section 98b (3) of the Danish Financial Statements Act, remuneration of the Board of Directors and Executive Board is not presented. Management is entitled to a share option program in the Parent Company, Emerson Electric Co. The program was fully utilised in 2016/17.

3 Financial income

DKK'000	2016/17	2015/16
Other financial income	24	29
Exchange gains	7,929	0
	7,953	29

Financial statements 1 October – 30 September

Notes

DKK'000		2016/17	2015/16
4	**Financial expenses**		
	Interest expense to group entities	1,560	2,158
	Other financial costs	0	64
	Exchange losses	0	158
		1,560	2,380
5	**Tax on profit/loss for the year**		
	Current tax for the year	-7,592	-5,100
	Adjustment of deferred tax for the year	5,535	4,559
	Adjustment regarding prior year	-13	2,705
		-2,070	2,164
6	**Proposed distribution of loss**		
	Retained earnings	-7,238	-7,029
		-7,238	-7,029

7 Intangible assets

DKK'000	Completed development projects	Other intangible assets	Goodwill	Development projects in progress	Total
Cost at 1 October 2016	39.598	142.339	161.466	0	343.403
Additions	0	0	0	11.294	11.294
Cost at 30 September 2017	39.598	142.339	161.466	11.294	354.697
Amortisation and impairment losses at 1 October 2016	-22.767	-70.755	-48.413	0	-141.935
Amortisation	-5.059	-12.107	-10.766	0	-27.932
Amortisation and impairment losses at 30 September 2017	-27.826	-82.862	-59.179	0	-169.867
Carrying amount at 30 September 2017	11.772	59.477	102.287	11.294	184.830

Development projects in progress

Development projects in progress relate to the development of new products. The new projects are expected to be completed in 2017/18.

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8 Property, plant and equipment

DKK'000	Machinery	Fixtures and fittings, tools and equipment	Total
Cost at 1 October 2016	5.583	7.206	12.789
Addtions	75	40	115
Cost at 30 September 2017	5.658	7.246	12.904
Depreciation and impairment losses at 1 October 2016	-4.086	-3.718	-7.804
Depreciation	-686	-841	-1.527
Depreciation and impairment losses at 30 September 2017	-4.772	-4.559	-9.331
Carrying amount at 30 September 2017	886	2.687	3.573

9 Prepayments

DKK'000	2016/17	2015/16
Prepayments for insurance, etc.	675	639

10 Equity

The share capital consists of 80,000 shares of a nominal value of DKK 1 each.

All shares rank equally.

11 Provisions

Provisions regarding deferred tax comprise deferred tax arising from intangible assets and property, plant and equipment.

DKK'000	2016/17	2015/16
Other provisions at 1 October	3,182	3,656
Utilised during the year	-842	-3,208
Reversal of undrawn provisions	0	497
Provisions for the year	0	2,237
Other provisions at 30 September	2,340	3,182
The provisons are expected to be payable as follows:		
0-1 year	2,340	2,742
1-5 year	0	440
	2,340	3,182

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12 Contractual obligations, contingencies, etc.

Operating lease obligations

Rent and lease obligations (operating leases) falling due within 5 years total DKK 18,073 thousand (2015/16: DKK 4,242 thousand).

The Company is jointly taxed with the other Danish companies in the Emerson Group. As a wholly-owned subsidiary, together with the other companies included in the joint taxation, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends. Any subsequent correction of the taxable jointly taxed income or withholding taxes could result in an adjustment of the Company's liability.

13 Mortgages and collateral

The Company had issued guarantees regarding rental obligations of DKK 3,242 thousand at 30 September (2015/16: DKK 3,143 thousand).

14 Related party disclosures

Control

EMR Emerson Holdings (Switzerland GmbH), Neuhofstrasse 19A, 6340 Baar, Switzerland.

EMR Emerson Holdings holds the majority of the contributed capital in the Company.

EMR Emerson Holdings is part of the consolidated financial statements of Emerson Electric Co, 8000 W. Florissant Ave., St. Louis, 63136 Missouri, USA, which is the largest group, in which the Company is included as a subsidiary.

The consolidated statements of Emerson Electric Co. are available at the Company's address or on the Company's website www.emerson.com.

Related party transactions

In accordance with section 98 c(7) of the Danish Financial Statements Act, the Company has not disclosed any related party transactions as they were conducted on an arm's length basis. According to prepared budgets, a significant increase in revenue and earnings is expected for the coming years.

15 Uncertainty regarding recognition and measurement

Uncertainty exists regarding the valuation of intangible assets, as revenue and earnings must increase to ensure that no impairment issue exists.