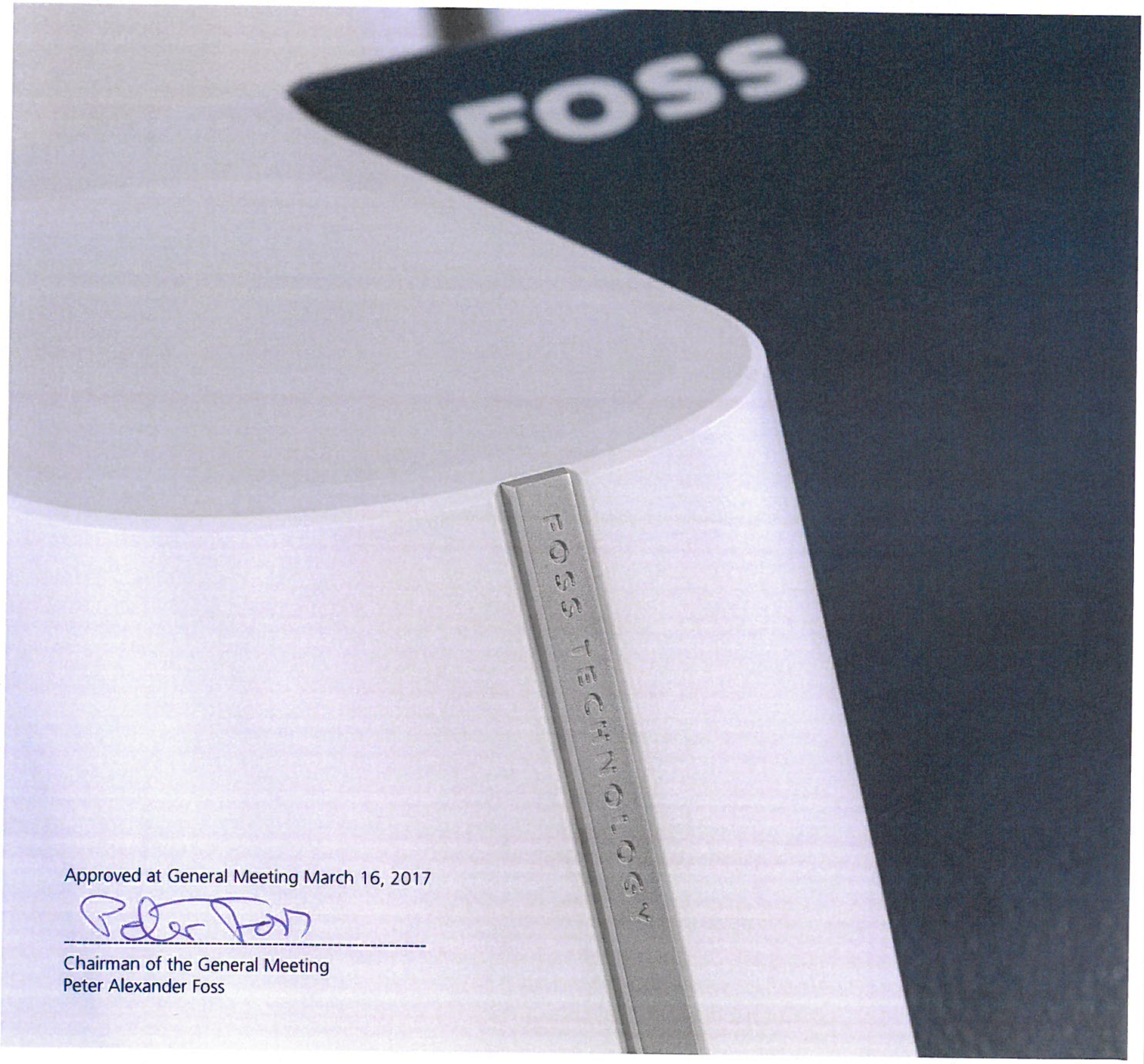
FOSS

FOSS Analytical A/S

Annual Report 2016

1st January–31st December 2016



Approved at General Meeting March 16, 2017

Peter Foss

Chairman of the General Meeting
Peter Alexander Foss

Dedicated Analytical Solutions

CVR-No 73399815
FOSS Analytical A/S, Foss Allé 1, DK-3400 Hillerød, Denmark

Contents

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of FOSS Analytical A/S for the financial year 1 January to 31 December 2016.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's financial position at 31 December 2016 and financial performance for the financial year 1 January to 31 December 2016.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Hillerød, March 16, 2017

Executive Board

Kim Vejlby Hansen
Chief Executive Officer

Poul Bundgaard

Kenneth Aaby Sachse

Board of Directors

Peter Alexander Foss
Chairman

Kim Vejlby Hansen

Kenneth Aaby Sachse

Sussie My Nikolajsen

Alex Vestergaard

Independent Auditor's Report

To the Shareholder of FOSS Analytical A/S

Opinion

We have audited the financial statements of FOSS Analytical A/S for the financial year 01.01.2016 - 31.12.2016, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant 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 Entity's financial position at 31.12.2016 and of the results of its operations and cash flows for the financial year 01.01.2016 - 31.12.2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exits. 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 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 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, 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 commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, 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 commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

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

Copenhagen, March 16, 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR No 33 96 35 56

Kirsten Aaskov Mikkelsen
State Authorized Public Accountant

Nikolaj Thomsen
State Authorized Public Accountant

Management Commentary

Financial Highlights

	2016	2015	2014	2013	2012
	TDKK	TDKK	TDKK	TDKK	TDKK
Key Figures					
Income Statement					
Revenue	1,406,491	1,241,133	798,574	609,296	579,627
Operating Profit	376,436	249,417	137,745	167,361	131,810
Net financial items	-3,941	21,270	-1,671	551	2,306
Profit for the year	281,527	198,473	93,370	117,787	90,116
Balance sheet					
Total assets	705,130	591,082	398,983	319,663	260,853
Equity	307,427	282,160	122,861	170,054	141,576
Investments in tangible assets	6,267	7,583	8,045	4,816	6,803
Number of employees, average	503	500	404	345	339
Ratios %					
Operating profit for the year vs. revenue	27%	20%	17%	27%	23%
Return on investments	53%	42%	35%	52%	51%
Solvency ratio	44%	48%	31%	53%	54%
Return on equity	95%	98%	64%	76%	63%

Management Commentary

Main Activity

FOSS Analytical A/S provides rapid, reliable and dedicated analytical solutions for routine control of quality and production of food in the aim of improving the business of our customers. Therefore constantly research in and development of new products and solutions is taken place. FOSS Analytical A/S' solutions contribute to human nutrition and health and to a rational use of natural resources.

FOSS Analytical A/S is 100% owned by FOSS A/S and is part of the N. Foss & Co. A/S consolidated group accounts (Ultimate Parent Company). FOSS Analytical A/S develops and produces in Denmark and market its' products worldwide through affiliated companies, independent distributors and directly.

Research & Development Activities

Aiming on research and development as well as further development of existing products continues at a high level. During 2016 DKK 176 million has been spent as research and development cost. In addition to this the Company has acquired Softflow Hungary Kft in Pecs, Hungary.

External Environment

Our policy is based on an environmental proper operation and is a natural part of the targets in the Company related to product quality and production.

Corporate Social Responsibility

Activities and policies related to corporate social responsibility are described in the annual report for the parent companies FOSS A/S and N. Foss & Co. A/S.

Diversity and inclusiveness

As a signatory of the UN Global Compact, FOSS has policies in place to address human rights, labour issues, the environment and anti-corruption. This includes a policy to ensure that all employees are treated equally regarding recruitment, advancement, job training and salary. All employees at FOSS shall have the same opportunities regardless of gender, age, race, ethnicity, sex, religion, sexual orientation, etc.

At FOSS we have taken a number of steps to meet these requirements, and ensure that internal and external stakeholders are aware of our position on equal opportunities.
Internally we communicate our policy through our CSR employee brochure and our portal. Furthermore, we communicate our position on equal opportunities to external stakeholders and potential employees through our website and other social media.

Our annual CSR/Sustainability report includes information on our efforts to ensure that our workplace is inclusive, as well as activities to ensure gender equality in the recruitment phase. Some of the initiatives which have taken place include ensuring that females are displayed prominently in the career section of our website, and that our equal opportunitly policy is adhered to in the hiring process.

In regard to the composition of our management board, our selection process is based on finding the best candidate with the right skillset, experience and qualifications for the role – regardless of gender, ethnicity, age, race, etc. At present the level is below the board's objective of 15% but the board endeavors to increase female representation and ensure highly qualified females are considered for board positions.

To find out more about our policies, efforts and progress to ensure equal opportunities, see the CSR/Sustainability section and CSR Report on our website http://www.foss.dk/about-foss/csr/.

Knowledge

Production of dedicated analytical solutions demands highly requirements for knowledge from employees and business processes. In order to preserve these solutions it is a prerequisite that the Company is able to recruit and maintain a high level of competences especially within technological and commercial disciplines dedicated against the food industry.

Risk

Operating risk

The Company has entered into framework contracts with key suppliers for delivery of components that are a part of production in the aim of securing a stable supply and a higher predictability in price development whereby the usual operating risk has been reduced.

Financial risk

The Company has a significant net currency exposure which has been covered by currency hedging agreements so that the commercial risk has been covered. Speculative currency transactions are not entered. The Company has based on current budgets covered expected currency exposures for the coming financial year.

The liquidity risk is covered through agreements concerning the set out of free liquidity as well as loan possibilities from the parent company.

Credit risk

The main part of the out standings of the Company is related to affiliated companies. The credit policy against the distributors is based upon credit valuations and knowledge of their main business. The credit policy against other external customers with whom the Company does not have a longer term corporation trading is based on advance payments and securities from third parties.

Development in activities and financial conditions

FOSS Analytical A/S has maintained its focus and enhanced its sales, development and manufacturing capabilities during 2016. In the beginning of 2016 Softflow Hungary Kft, Pecs in Hungary was acquired. Lattec I/S has been divested as per February 1, 2017. The divestment has no material impact to the annual report.

FOSS Analytical A/S has increased revenue by 13% to a total of DKK 1,406 million vs. DKK 1,241 million last year. More than 99% of the Company's sales are exported.

Gross Profit amounts to DKK 729 million versus (DKK 583 million in 2015).

Average number of employees are 503 or at the same level as 2015.

After depreciation operating profit amounted to DKK 376 million (DKK 249 million in 2015).

Profit before tax amounts to DKK 363 million (DKK 260 million in 2015).

Profit for the year is by DKK 282 (DKK 198 million in 2015) in line with latest announced expectations. Proposed dividend for the year will be DKK 282 million.

Per 16th March 2016 Kim Vejlby Hansen was appointed to CEO as Torben Ladegaard Jensen resigned his position.

Uncertainty relating to recognition and measurement

There is no significant uncertainty related to the annual report according to the management.

Unusual circumstances

The annual report is not impacted by any unusual circumstances.

Expected development

FOSS Analytical A/S is well positioned for the future and expects to maintain its position within dedicated analytical solutions for the food industry. The global markets continue to be influenced by a high uncertainty but based upon the prerequisites for a weak positive development in the global economy and the expected higher manufacturing activity from affiliates the Company has an expectation for a higher 2017 result vs. 2016.

Income Statement

	Note	2016	2015
		TDKK	TDKK
Revenue	1	**1,406,491**	**1,241,133**
Change in inventories of finished goods and work in progress		12,445	11,806
Other operating income		26,817	16,092
Expenses for raw materials and consumables		-525,253	-496,512
Other external expenses		-191,297	-188,965
Gross Profit		**729,203**	**583,554**
Staff expenses	2	-343,029	-326,880
Earnings before Depreciation and Interest		**386,174**	**256,674**
Depreciation and impairment losses on fixed assets	3	-9,738	-7,257
Operating Profit		**376,436**	**249,417**
Loss from associated company	4	-4,793	-11,123
Loss from group enterprises	5	-5,081	0
Other financial income	6	1,572	22,198
Other financial expenses	7	-5,513	-928
Profit from ordinary activities before tax		**362,621**	**259,564**
Tax on profit for the year	8	-81,094	-61,091
Profit for the year	9	**281,527**	**198,473**

Balance Sheet

Assets

	Note	2016	2015
		TDKK	TDKK
Software and patents	10	5,850	3,239
Intangible assets		**5,850**	**3,239**
Plant and machinery		2,396	3,224
Other fixtures, fittings, tools and equipment		11,685	12,035
Leasehold improvements		438	493
Tangible assets	11	**14,519**	**15,752**
Investment in associated company	12	9,117	10,910
Investment in group enterprises	13	9,558	0
Fixed asset investment		**18,675**	**10,910**
Fixed assets		**39,044**	**29,901**
Inventories	14	**161,539**	**146,891**
Trade receivables		31,195	45,332
Receivables from group enterprises		226,574	144,401
Receivables from parent company		176,375	182,572
Receivables from associated company		20	3
Other short-term receivables	15	7,001	4,681
Deferred tax asset	16	4,656	2,871
Prepayments	17	3,290	1,362
Receivables		**449,111**	**381,222**
Cash and cash equivalents		**55,436**	**33,068**
Current assets		**666,086**	**561,181**
Assets		**705,130**	**591,082**

Balance Sheet

Liabilities

	Note	2016	2015
		TDKK	TDKK
Contributed capital	18	20,500	20,500
Retained earnings		5,400	11,660
Proposed dividend for the year		281,527	250,000
Equity		**307,427**	**282,160**
Other provisions	19	9,752	9,758
Provisions		**9,752**	**9,758**
Non-current liabilities other than provisions	20	**6,049**	**0**
Prepayments received from customers		11,074	17,629
Trade payable		74,034	48,663
Payables to group enterprises		95,205	61,181
Income tax payable		80,781	61,224
Other payables		79,466	85,264
Deferred income	21	41,342	25,203
Current liabilities other than provisions		**381,902**	**299,164**
Liabilities other than provisions		**387,951**	**299,164**
Equity and Liabilities		**705,130**	**591,082**

Contingent assets and liabilities	22
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Statement of Changes in Equity

Changes in Equity 2016	Contributed Capital	Retained Earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity beginning of year	20,500	11,660	250,000	282,160
Dividend paid	0	0	-250,000	-250,000
Cash flow hedge, net of tax	0	-6,246	0	-6,246
Exchange rate adjustment	0	-14	0	-14
Profit for the year	0	0	281,527	281,527
Equity end of year	**20,500**	**5,400**	**281,527**	**307,427**

Changes in Equity 2015	Contributed Capital	Retained Earnings	Proposed dividend for the year	Total
	TDKK	TDKK	TDKK	TDKK
Equity beginning of year	20,500	55,676	46,685	122,861
Dividend paid	0	0	-46,685	-46,685
Cash flow hedge, net of tax	0	7,511	0	7,511
Profit for the year	0	-51,527	250,000	198,473
Equity end of year	**20,500**	**11,660**	**250,000**	**282,160**

Notes to the Annual Report

		2016	2015
		TDKK	TDKK
1	**Revenue**		
	Geographical markets		
	Denmark	9,237	13,331
	Other EU countries	486,222	465,128
	Other countries	911,032	762,674
		1,406,491	**1,241,133**
2	**Staff Expenses**		
	Wages and salaries	-332,700	-316,905
	Pensions	-6,408	-6,090
	Other social security expenses	-3,921	-3,885
		-343,029	**-326,880**
	Hereof salaries and wages for Executive Board and Board of Directors		
	Executive Board	12,752	12,456
	Board of Directors	10	10
		12,762	**12,466**

Remuneration to registrered members of the Executive Board consist of salary and bonus. Furthermore cars have been provided for the Executive Board's free disposal. Members of the Executive Board has been reduced from 5 to 3. Remuneration to the Executive Board includes severance cost of 2 MDKK for 2016 and 4 MDKK for 2015.

		2016	2015
	Average number of employees	**503**	**500**
3	**Depreciation and impairment losses on fixed assets**		
	Software and patents	-2,238	-721
	Plant and machinery	-1,898	-1,585
	Other fixtures, fittings, tools and equipment	-5,547	-4,892
	Leasehold improvements	-55	-59
		-9,738	**-7,257**

Notes to the Annual Report

		2016	2015
		TDKK	TDKK
4	**Loss from associated company**		
	Part of result in associated company	**-4,793**	**-11,123**
5	**Loss from group enterprises**		
	Part of result in group enterprises	**-5,081**	**0**
6	**Other financial income**		
	Interest received	737	205
	Interest received from affiliated companies	835	71
	Exchange rate adjustment	0	21,922
		1,572	**22,198**
7	**Other financial expenses**		
	Interest paid	-105	-63
	Interest paid to affiliated companies	-1,425	-865
	Exchange rate adjustment	-3,983	0
		-5,513	**-928**

Notes to the Annual Report

		2016	2015
		TDKK	TDKK
8	**Tax on profit for the year**		
	Corporation tax for the year	-81,098	-61,325
	Tax paid abroad	-20	0
	Deferred tax for the year	24	234
	Tax for the year	**-81,094**	**-61,091**
	Specified on the following:		
	Tax on profit for the year	-81,094	-61,091
	Tax for the year concerning changes in equity	1,761	-2,595
	Tax for the year	**-79,333**	**-63,686**
	Deferred tax asset		
	Deferred tax beginning of the year	2,871	5,232
	Adjustments in Profit & Loss	24	234
	Adjustments in Equity	1,761	-2,595
	Deferred tax end of year	**4,656**	**2,871**
9	**Proposed distribution of profit**		
	Proposed dividend for the financial year	281,527	250,000
	Retained earnings	0	-51,527
	Profit for the year	**281,527**	**198,473**

Notes to the Annual Report

10 Intangible Assets

	Software and patents
	TDKK
Cost beginning of year	23,590
Additions for the year	4,989
Disposals for the year	-222
Cost end of year	28,357
Amortization and impairment losses 1 January	20,351
Amortization of sold assets for the year	-82
Amortization for the year	2,238
Amortization and impairment losses 31 December	22,507
Carrying amount end of year	**5,850**
Amortized over period of	1-3 years

11 Tangible assets

	Plant and machinery	Other fixtures, fittings, tools and equipment	Leasehold improvements
	TDKK	TDKK	TDKK
Cost beginning of year	18,946	53,071	919
Additions for the year	1,256	5,197	0
Disposals for the year	-321	-201	0
Cost end of year	19,881	58,067	919
Depreciation beginning of year	15,722	41,036	426
Depreciation for the year	1,898	5,547	55
Depreciation of sold assets for the year	-135	-201	0
Depreciation end of year	17,485	46,382	481
Carrying amount end of year	**2,396**	**11,685**	**438**
Depreciated over period of	3-5 years	3-5 years	During the rental period

Notes to the Annual Report

		2016	2015
		TDKK	TDKK
12	**Investment in associated company**		
	Cost beginning of year	254,300	246,800
	Additions for the year	3,000	7,500
	Cost end of year	257,300	254,300
	Impairment losses beginning of year	-243,390	-232,267
	Profit for the year	-4,793	-11,123
	Impairment losses end of year	-248,183	-243,390
	Carrying amount end of year	**9,117**	**10,910**

Investment in associated company

	Ownership	Capital
Lattec I/S, Denmark	50%	508,600

As per February 1, 2017 Lattec I/S has been divested.
The divestment has no material impact to the annual report.

Notes to the Annual Report

	2016	2015
	TDKK	TDKK
13 Investment in group enterprises		
Cost beginning of year	0	0
Additions for the year	14,653	0
Cost end of year	14,653	0
Impairment losses beginning of year	0	0
Exchange rate adjustment	-14	0
Net profit for the year	-5,081	0
Impairment losses end of year	-5,095	0
Carrying amount end of year	**9,558**	**0**

Investment in associated company	Ownership	Capital
Softflow Hungary Kft., Pecs, Hungary	100%	20.000 THUF

14 Inventories	2016	2015
	TDKK	TDKK
Raw materials and consumables	52,180	49,977
Work in progress	37,494	36,452
Manufactured goods and goods for resale	71,865	60,462
	161,539	**146,891**

Notes to the Annual Report

		2016	2015
		TDKK	TDKK
15	**Other short-term receivables**		
	Deposits	157	57
	Other receivables	6,844	4,624
		7,001	**4,681**
16	**Deferred tax assets**		
	Fixed assets	31	13
	Inventories	-3,157	-2,766
	Other provisions	2,791	2,393
	Prepayments and accruals	4,991	3,231
		4,656	**2,871**
17	**Prepayments**		
	Other prepayments	3,290	1,362
		3,290	**1,362**
18	**Contributed Capital**		
	Contributed capital is composed as follows:		
	41.000 units of shares of DKK 500	20,500	20,500

There has not been any capital changes for the last 5 years.

Notes to the Annual Report

		2016	2015
		TDKK	TDKK
19	**Other provisions**		
	Provisions for warranty	9,752	9,758
		9,752	**9,758**
20	**Non-current liabilities other than provisions**		
	All long term debt falls due between 1 and 5 years	6,049	0
		6,049	**0**
21	**Deferred income**		
	Recognition of loss regarding forward exchange contracts	36,610	25,203
	Prev-invoiced sale	4,732	0
		41,342	**25,203**
22	**Contingent assets and liabilities**		
	Lease commitments	2,127	1,646
	Securities and guarantees	1,198	1,615
		3,325	**3,261**
	Guarantees etc.:		
	Purchase obligations for long-term delivery do not exceed	71,969	69,453
	Gross contingent liabilities in relation to liability for Lattec I/S' obligation	6,480	8,744
	Security concerning credit cards	1,445	1,000

The company is a part of a Danish joint taxation of which N. FOSS & Co A/S is the administrative entity. From 1st July 2012 the ultimate parent company is liable for potential obligations for withholding taxes on interest, royalties and dividends and from 1st January 2013 for company taxes within the joint taxation according to the company tax law.

Notes to the Annual Report

		2016	2015
		TDKK	TDKK
22	**Contingent assets and liabilities continued**		
	Forward exchange coverage		
	The following forward exchange contracts have been taken out:		
	Contract value:		
	Sales contracts. Expires within one year	633,074	585,149
	Purchase contracts. Expires within one year	-109,678	-123,932
	Net value	**523,396**	**461,217**
	Contract value:		
	Sales contracts. Expires within two years	61,277	84,785
	Purchase contracts. Expires within two years	-8,246	-8,838
	Net value	**53,032**	**75,947**
	An unrealized gain/loss is included in prepayments/deferred income	-36,610	-25,203
23	**Fee to auditor appointed at the general meeting**		
	Fee for statutory audit	323	316
	Tax advice	0	5
	Other services	331	88
	Fee to auditor appointed at the general meeting	**654**	**409**

Notes to the Annual Report

24 Related parties

FOSS A/S and N. Foss & Co A/S are related parties and have a controlling interest in the company.

Transactions with related parties are based on market price (arm's length).

25 Ownership and group relationship

All shares are owned by:

FOSS A/S, Hillerød, Denmark

In accordance with The Danish Financial Statements Act § 71 it shall be stated that, the Company's annual report is included in the consolidated financial statement of FOSS A/S and the ultimative parent company N. Foss & Co. A/S.

Accounting Principles

Basis of preparation

This annual report has been prepared in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (large).

In accordance to The Danish Financial Statements Act § 112 no 1, Group Accounts are not generated as the company is included in FOSS A/S.

The accounting policies for these financial statements are consistent with those applied last year.

The annual report is prepared in thousands DKK.

Recognition and measurement

Assets are recognized in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Group, and the value of the assets can be measured reliably.

Liabilities are recognized in the balance sheet when the Company has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Company, and the value of the liabilities can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognized in the income statement when earned, whereas costs are recognized by the amounts attributable to this financial year.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the one in effect at the payment date or the rate at the balance sheet date are recognized in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognizing associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date

According to FOSS Group currency policy the expected cash flow in foreign currencies for the coming year is covered by forward exchange contracts.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognized under prepayments or deferred income.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging the fair value of a recognized asset or a recognized liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are classified directly in equity. When the hedged transactions are realized, the accumulated changes are recognized as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognized currently in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments applied for hedging net investments in independent foreign subsidiaries or associates are classified directly as equity.

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognized in the income statement when delivery is made and risk has passed to the buyer. Revenue is recognized net of VAT, duties and sales discounts and measured at fair value of the consideration fixed.

Other operating income and expenses

Other operating income and expenses comprise income and expenses of a secondary nature viewed in relation to the Company's primary activities, including subsidies, rental income, license income, etc.

Other external expenses

Other external expenses comprise expenses for distribution, sale, marketing, administration, premises, bad debts, etc.

Other external expenses also include research costs, costs of development projects that do not meet the criteria for recognition in the balance sheet, and amortization of recognized development projects. In addition, provisions for loss on contract work in progress are recognized.

Staff costs

Staff costs comprise salaries and wages as well as social security costs, pension contributions, etc for the Company's staff.

Other financial income and expenses

These items comprise interest income and expenses, realized and unrealized capital gains and losses on securities, payables and transactions in foreign currencies as well as tax surcharge and tax relief under the Danish Tax Prepayment Scheme.

Income taxes

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognized in the income statement by the portion attributable to the profit for the year and recognized directly in equity by the portion attributable to entries directly in equity. The portion of the tax taken to the income statement, which relates to extraordinary profit/loss for the year, is allocated to this entry whereas the remaining portion is taken to the year's profit/loss from ordinary activities.

The current tax payable or receivable is recognized in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Deferred tax is recognized on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax is measured based on the tax regulations and tax rates that will be in effect, using the laws at the balance sheet date, when the deferred tax is estimated to be triggered as current tax. Changes in deferred tax resulting from changed tax rates are recognized in the income statement.

Deferred tax assets, including the tax base of tax loss carry forwards, are recognized in the balance sheet at their estimated realizable value within 3-5 years, either as a set-off against deferred tax liabilities or as net tax assets.

The Company is part of a Danish joint taxation of which N. FOSS & Co A/S is the administrative entity. The current Danish income tax is allocated among the jointly taxed companies proportionally to their taxable income (full allocation with a refund concerning tax losses).

Deferred tax relating to re-taxation of previously deducted losses of foreign subsidiaries is recognized based on a specific assessment of the purpose of the individual subsidiary.

Balance Sheet

Other intangible assets

Other intangible assets comprise acquired intellectual property rights.

Acquired intellectual property rights in the form of patents and licenses are measured at cost less accumulated amortization and impairment losses. Patents are amortized over their remaining duration, and licenses are amortized over the term of the agreement, but over no more than 3 years.

Other intangible assets are written down to the lower of recoverable amount and carrying amount.

Profits and losses from the sale of other intangible assets are calculated as the difference between selling price less selling costs and the carrying amount at the time of sale. Profits or losses are recognized in the income statement as an adjustment to amortization and impairment losses, or under other operating income if the selling price exceeds original cost.

Tangible Assets

Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Cost comprises the acquisition price, costs directly attributable to the acquisition, and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Plant and machinery	3-5 years
Other fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	through the rental period

Property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Profits and losses from the sale of property, plant and equipment are calculated as the difference between selling price less selling costs and carrying amount at the time of sale. Profits or losses are recognized in the income statement as adjustment to depreciation and impairment losses, or under other operating income if the selling price exceeds original cost.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are recognized and measured under the equity method. This means that investments are measured at the pro rata share of the enterprises' equity plus or less unamortized positive, or negative, goodwill and plus or less unrealized intra-group profits or losses.

The Parent's share of the enterprises' profits or losses after elimination of unrealized intra-group profits and losses and less or plus amortization of positive, or negative, goodwill is recognized in the income statement.

Subsidiaries and associates with a negative equity value are measured at zero value, and any receivables from these enterprises are written down by the Parent's share of such negative equity if it is deemed irrecoverable. If the negative equity exceeds the amount receivable, the remaining amount is recognized under provisions if the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise.

Upon distribution of profit or loss, net revaluation of investments in subsidiaries and associates is transferred to reserve for net revaluation according to the equity method under equity.

The purchase method is applied in the acquisition of investments in subsidiaries and associates; see above description under consolidated financial statements.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realizable value.

Cost of goods for resale, raw materials and consumables consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables and direct labor costs as well as indirect production costs.

Indirect production costs comprise indirect materials and labor costs, costs of maintenance of and depreciation and impairment losses on machinery, factory buildings and equipment applied for the manufacturing process as well as costs of factory administration and management. Financing costs are not included in cost.

The net realizable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortized cost, usually equalling nominal value less provisions for bad debts.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Dividend

The proposed dividend for the financial year is disclosed as a separate item in equity.

Other provisions

Other provisions comprise anticipated warranty commitments, decided and published restructurings, etc.

Other provisions are recognized and measured as the best estimate of the expenses required to settle the liabilities at the balance sheet date. Provisions that are estimated to mature more than one year after the balance sheet date are measured at their discounted value.

Warranty commitments comprise commitments to remedy defects and deficiencies within the guarantee period.

Lease commitments

Lease payments on operating leases are recognized on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are recognized at amortized cost which usually corresponds to nominal value.

Deferred income

Deferred income comprises received income for recognition in subsequent financial years. Deferred income is measured at cost.

Cash flow statement

Cash flow statement has not been prepared for the Company as the cash flow is included in the cash flow statement of the Group.

Financial highlights

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

The financial ratios have been calculated as follows:

$$\text{Operating profit for the year vs. revenue} = \frac{\text{Operating Profit} \times 100}{\text{Revenue}}$$

$$\text{Return on Investments} = \frac{\text{Operating Profit} \times 100}{\text{Total Assets}}$$

$$\text{Solvency ratio} = \frac{\text{Equity at year end} \times 100}{\text{Total Assets}}$$

$$\text{Return on equity} = \frac{\text{Profit for the year} \times 100}{\text{Average equity}}$$