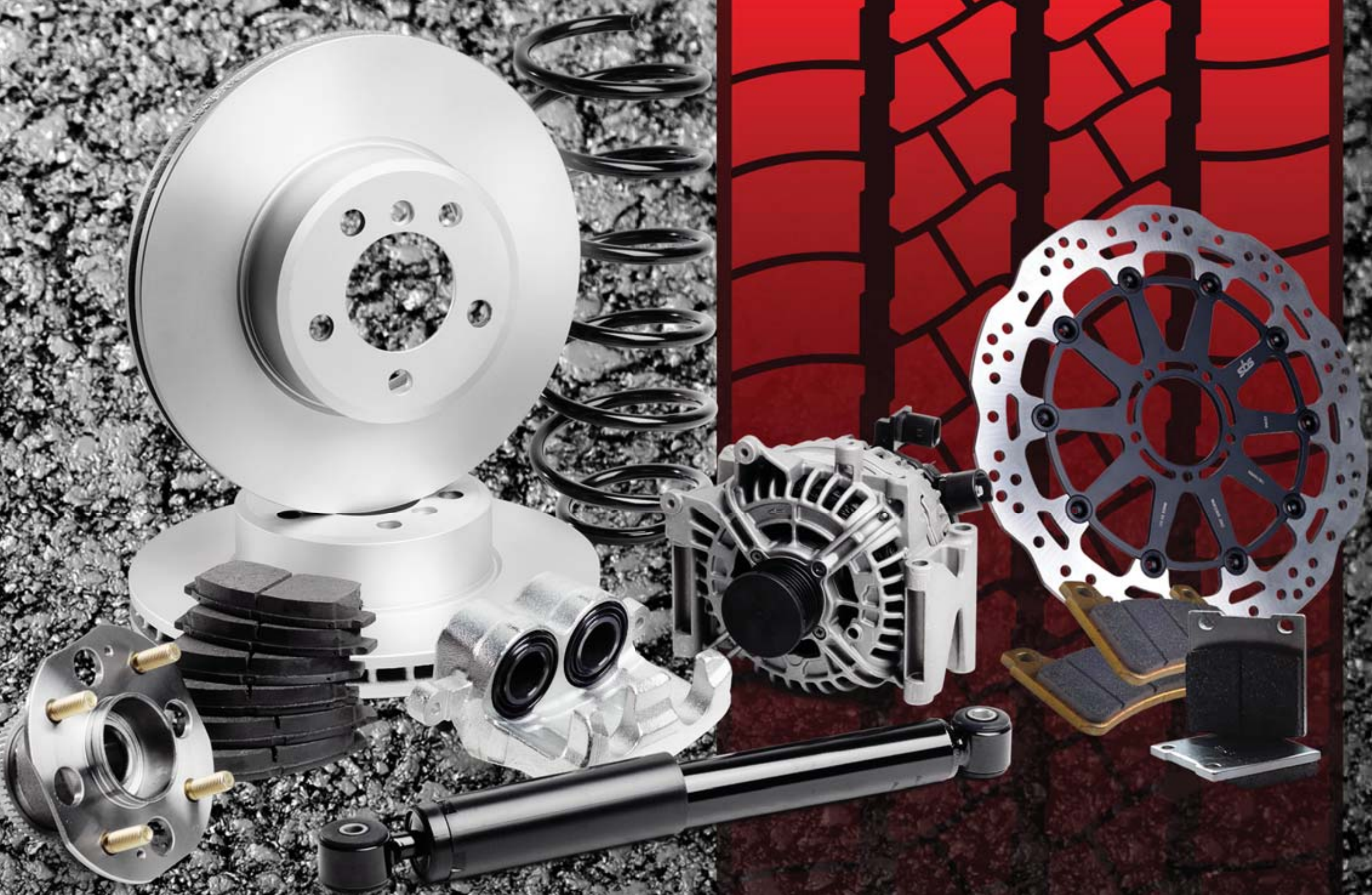
The following is a translation of an original Danish document.

The original Danish document is the governing document for all purposes, and in case of any discrepancy, the Danish wording will be applicable.

The original Danish document can be seen in full on www.sbs.dk – Danish version – Årsrapport 2016.



Extract of

ANNUAL REPORT 2016

Scandinavian Brake Systems A/S
CVR no. DK 32 77 42 10; LEI code 529900DY2V39LC8FJ309

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THE YEAR IN OUTLINE

2016 was characterised by our efforts to create a future sound business foundation for the Group. Important milestones:

- // Divestment of assets relating to Notox
- // Closing of long-term credit agreement until 2020 with the Group's banking institutions
- // Strategic focus on the continuing business areas
- // Operational optimisation, SBS Automotive primarily focussing on efficient supply chain solutions, including the successful transfer of disc packaging activities to Poland, and SBS Friction focusing on market and product development.

Consolidated revenue came in at DKK 770 million against DKK 766 million for the continuing operations (exclusive of Notox) in 2015.

Revenue is broken down on the Group's divisions as follows:

SBS AUTOMOTIVE:
Revenue of DKK 647 million against DKK 649 in 2015. The development is attributable to a decline in the UK and to specific segments in Germany and an increase in Eastern Europe, primarily in Russia and Poland. EBITDA recurring decreased from DKK 41 million to DKK 33 million, primarily due to a shift in revenue mix.

SBS FRICTION:
Revenue came in at DKK 123 million against DKK 117 million in 2015, representing an increase of 5%. Thereby, the division realised the highest revenue ever. EBIDTA recurring was also record high at DKK 22 million against DKK 18 million in 2015, corresponding to an increase of as much as 22% compared with the record year 2015.

NOTOX:
All assets regarding the Notox activities were sold in 2016 at a profit of DKK 9 million.

SBS GROUP:
Operating profit of the Group before depreciation, amortisation and impairment losses (EBITDA recurring) totalled DKK 50 million against DKK 55 million in 2015. As described above, this reflects an increase in SBS Friction and a decrease in SBS Automotive.

Profit for the year totalled DKK 6 million as against a negative DKK 172 million in 2015.

The results of operations are in line with the Company's announcement at 22 November 2016.

Equity, cash resources and financing
During the financial year, consolidated net interest-bearing debt was reduced from DKK 484 million at 31 December 2015 to DKK 469 million at 31 December 2016, primarily due to the sale of the Notox assets.

Equity developed from a negative DKK 197 million at 31 December 2015 to a negative DKK 184 million at 31 December 2016.

In 2016, the Group has been working on the establishment of a long-term credit agreement. In March 2017, a final agreement was reached with the Group's banking institutions which covers the expected financing needs for the continued operations of the Group until 1 April 2020.

Outlook for 2017
The Group expects to report revenue in 2017 of DKK 760-790 million and EBITDA recurring of DKK 55-65 million.

FINANCIAL HIGHLIGHTS

DKK million

Key figures	**2016**	**2015**	**2014**	**2013**	**2012**
Revenue	769.7	766.2	1,013.9	1,037.1	959.5
Index (2012 = 100)	80.2	79.9	105.7	108.1	100.0
Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring)	49.5	54.8	65.7	75.3	57.9
Profit on the sale of activity	-	-	66.6	-	-
Other special items (reorganisation, etc.)	-10.9	-11.1	-20.2	-4.1	- 8.9
Operating profit before depreciation, amortisation and impairment losses (EBITDA)	38.6	43.7	112.1	71.2	49.0
Depreciation, amortisation and impairment losses	-19.2	-14.7	-15.7	-16.0	-17.8
Operating profit (EBIT)	19.4	29.0	96.4	55.2	31.2
Finance income and finance costs (net)	-26.2	-17.6	-3.9	-38.9	-49.4
Profit/loss from continuing operations before tax	-6.8	11.4	88.2	14.4	-20.0
Profit/loss from continuing operations after tax	-3.7	5.3	-	-	-
Profit/loss from discontinuing operations after tax	10.0	-177.2	-	-	-
Profit/loss for the year (after tax)	6.3	-171.9	61.7	0.3	5.8
Non-current assets	160.2	164.2	331.7	374.0	392.2
Current assets	281.0	299.0	275.8	391.9	380.2
Total assets	441.2	463.2	607.5	765.9	772.4
Share capital	32.1	32.1	32.1	32.1	32.1
Equity	-183.8	-196.8	-26.3	-89.3	-94.0
Non-current liabilities	451.1	460.5	73.8	602.8	469.6
Current liabilities	173.9	199.5	560.0	252.5	191.2
Net working capital (NWC)	188.7	186.0	189.1	295.9	294.1
Net interest-bearing debt, including subordinate loan capital (2011-2013)	468.9	484.4	440.9	631.4	683.9
Average number of employees	283	316	443	450	497
Revenue per employee	2.7	2.4	2.3	2.3	1.9
Cash flow from operating activities	7.9	29.1	-13.8	78.0	48.6
Cash flow to investing activities, net	-15.1	-14.4	188.9	-10.5	-11.8
Hereof invested in property, plant and equipment	9.9	11.5	11.3	8.6	-11.4
Cash flow from financing activities	21.3	9.4	-175.2	-67.6	-20.2
Cash flow from discontinuing operations	-14.2	-24.0	-	-	-
Total cash flows for the year	-0.1	0.1	-	-	16.7

Financial ratios	**2016**	**2015**	**2014**	**2013**	**2012**
Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring margin)	6.4	7.2	6.5	7.3	6.0
EBITDA margin	5.0	5.7	11.1	6.9	5.1
EBIT margin	2.5	3.8	9.5	5.3	3.3
Return on invested capital (ROIC excl. GW)	8.6	11.7	27.5	18.0	9.4
Return on equity in % (ROE)	I/A	I/A	I/A	I/A	I/A
Equity ratio	-41.6	-42.5	-4.3	-11.7	-12.2
Earnings per share in DKK (EPS Basic)	2.0	-53.6	19.2	0.1	1.8
Net asset value per share in DKK (BVPS)	-57.3	-61.3	-8.2	-27.8	-29.3
Price/net asset value	-0.5	-0.5	-5.0	-1.0	-0.6
Market price at year end	26.7	28.8	41.0	28.3	16.2

Earnings per share and diluted earnings per share have been calculated in accordance with IAS 33. Other 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, page 41.

Financial highlights for 2012-2014 have not been restated as the Notox activity was accounted for as discontinuing operations in 2016.

SBS presents alternative performance indicators in the annual report which are not defined in accordance with IFRS. In the opinion of the Group, those financial highlights increase the level of comparability and improve the evaluation of this year's and previous year's profits from operations. For a definition, please see page 41.

STRATEGIC DEVELOPMENT OF THE GROUP

The Group's overall strategic focus in 2016 was to find a durable solution regarding Notox and to ensure a more permanent and stable capital base for the Group and its continuing business areas, SBS Automotive and SBS Friction. In addition, the Group has been working on an update of the strategy plan for the Group and its business areas up to an including 2019. The operational focus areas will be described under the division sections.

Solution regarding Notox
The division's activities and assets were divested in 2016. The sales price totalled DKK 33 million, and following the transaction, the SBS Group realised an accounting profit of DKK 9 million before tax. At the presentation of the consolidated financial statements for 2015, the deferred tax asset was written off based on the assumption that the divestment of the Notox activities would be effected as a sale of shares, which would imply that the tax losses allowed for carryforward would lapse.

The divestment in 2016 was, however, made by means of a sale of activities and assets, which implied that the tax losses allowed for carryforward regarding the Notox activity were maintained and can be utilised by the companies in the joint taxation unit going forward.

Long-term credit agreement
Based on the Group's focus on its core business in the divisions, SBS Automotive and SBS Friction, and subsequent to the divestment of the Notox activity, group management prepared a new business plan for 2017-2019 at the end of 2017, inclusive of budget for 2017 and prognoses for 2018 and 2019, which were presented to the Group's banking institutions. Together with the Group's banking institutions, Management has subsequently prepared a new long-term credit agreement. Based on the business plan for 2017-2019, a new credit agreement was thus closed in March 2017 with the Group's banking institutions. The new credit agreement runs for three years until April 2020 after which it is subject to renegotiation.

In the opinion of group management, this agreement provides the Group and the Parent Company with the financial base required to continue the activities and operations in the coming three years.

New strategy plan
The SBS Group's possible strategic actions were in recent years strongly affected by the financial challenges which the unsuccessful investment in particulate filters had implied. Through the sale of the activity and the assets in Notox, the Group's strategic development opportunities are now entering a new phase leaving the Group with a sustainable business foundation in the form of SBS Automotive and SBS Friction.

The SBS Group's new strategy plan, which will be assessed and extended regularly, describes the development scenario up to and including 2019 based on the Group's continuing business areas. Focus will in particular be on the two areas below:

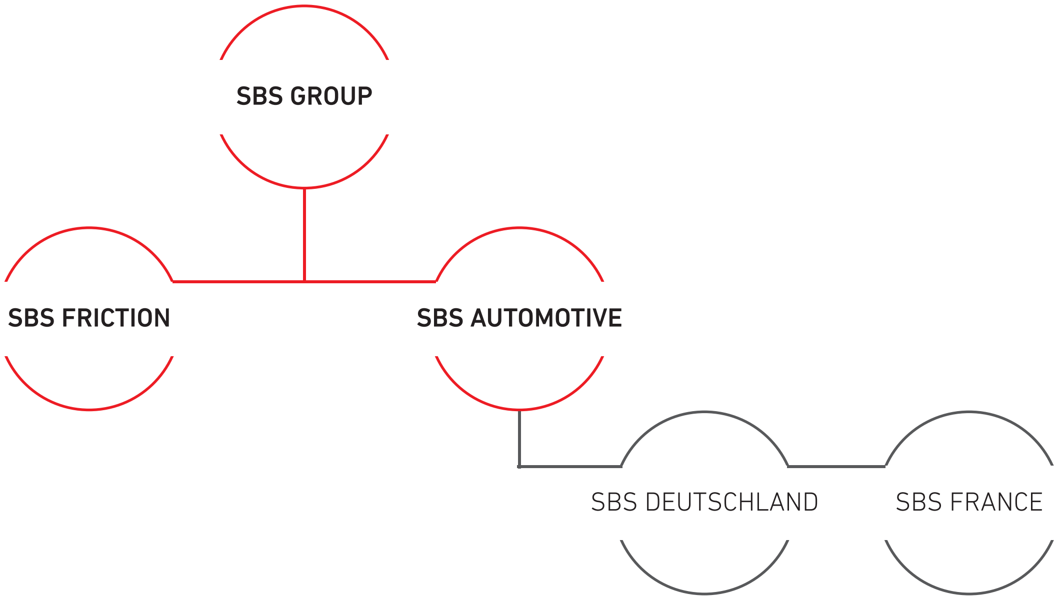
- // Re-establishment of the Group's capital base
- // Development of the continuing business areas

The credit agreement entered into with the Group's banking institutions in March 2017 forms the basis for the first-mentioned focus areas, whereas the strategic initiatives and goal for the business areas relate to the two divisions and will be described in the sections on SBS Automotive and SBS Friction.

Some of the strategic key action areas will, however, be cross-organisational. This applies among others to the increased focus on digitalisation through new IT systems and the development of digital processes for international trade, communication and processes.

In terms of our organisational development, measures taken will consider the Group in general and ensure that the SBS Group at management and employee level has the qualifications required to execute and succeed in the strategy plan.

GROUP STRUCTURE



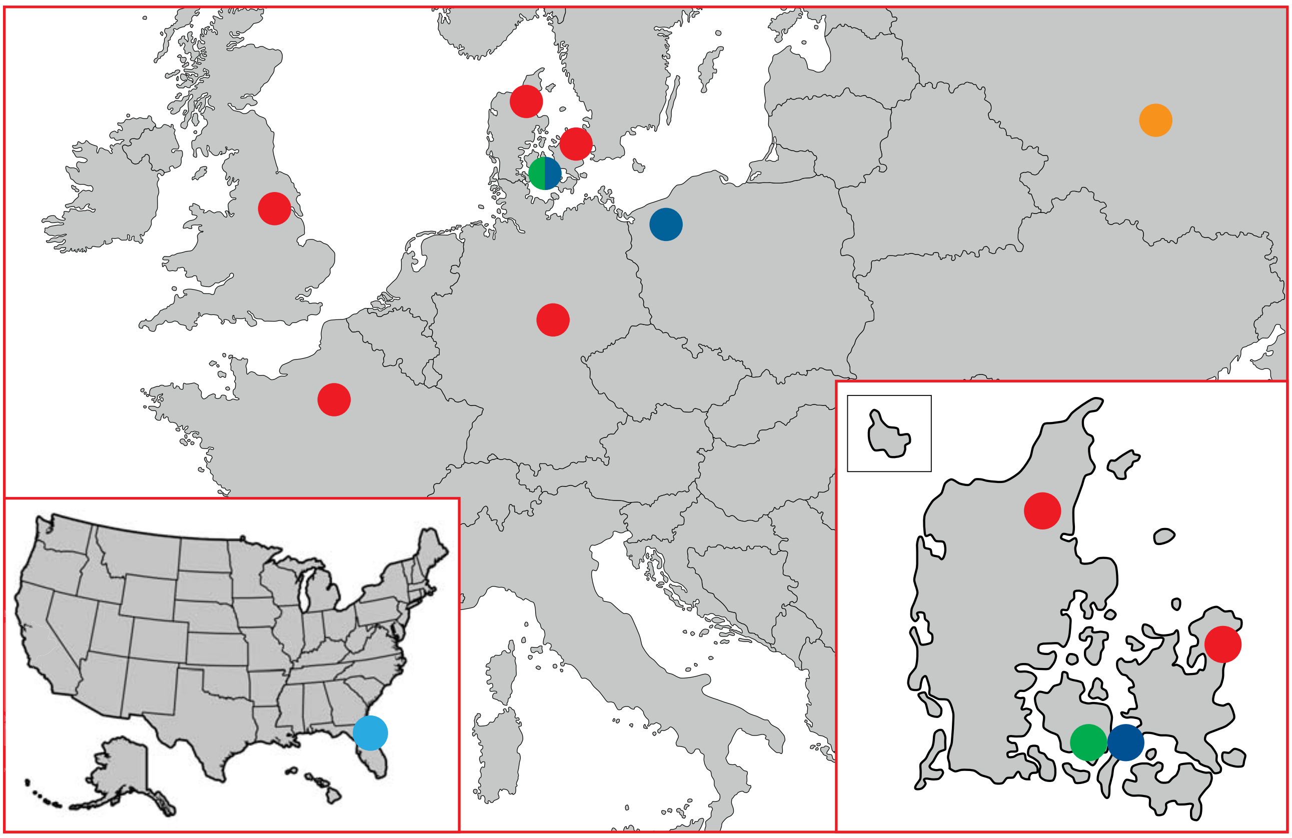
SBS FRICTION
Production site:
Brake pads
Svendborg, DK

SBS FRICTION
Sales office:
Daytona Beach,
Florida, USA

SBS AUTOMOTIVE
Packaging operations:
Brake shoes
Svendborg, DK
Brake discs and brake calipers
Stettin, PL*

SBS AUTOMOTIVE
Distribution centres:
Eisenach, DE
Chaumont, FR
Støvring, DK
Glostrup, DK
Doncaster, UK*

SBS AUTOMOTIVE
Sales office
Moscow, RU



* Logistics operations in cooperation with partner.

FINANCIAL REVIEW AND EXPECTATIONS OF 2017

Development and results of operations

Consolidated revenue came in at DKK 770 million against DKK 766 million for the continuing operations (exclusive of Notox) in 2015.

Divisionernes udviklingDevelopment of the divisions

Revenue in DKK million	2016	2015	Index
SBS Automotive	647	649	100
SBS Friction	123	117	105
Consolidated revenue	**770**	**766**	**101**

SBS Automotive reported revenue of DKK 647 million in 2016 against DKK 649 million in 2015.

Development in revenue fluctuates considerably across regions. Russia, Poland and the Czech Republic demonstrated considerable progress whereas the sale to the UK market was negatively affected by the consequences of BREXIT.

SBS Friction realised revenue of DKK 123 million in 2016 against DKK 117 million in 2015. Revenue was record high this year owing to the sound market conditions in Europe in general based on a long season.

Notox was closed down at the end of March 2016, and the activity and assets were divested during 2016.

Consolidated EBITDA broken down on divisions

EBITDA in DKK million	2016	2015
SBS Automotive	33	41
SBS Friction	22	18
Group functions	-5	-4
EBITDA recurring Group	**50**	**55**
Other special items	-11	-11
EBITDA Group	**39**	**44**

SBS Automotive realised EBITDA recurring of DKK 33 million in 2016 against DKK 41 million in 2015. The development in EBITDA recurring relates to the relatively week markets and changes in revenue allocation from high-earning market segments to low-earning market segments. During the year and in particular in the second half of 2016, the Group has been working on this, and expects that the measures taken will prevent the negative trend from continuing. For further comments on the development in SBS Automotive, please refer to pages 8-9 in the Management commentary.

SBS Friction realised EBITDA recurring of DKK 22 million in 2016 against DKK 18 million in 2015. The development in EBITDA recurring mainly relates to the development in revenue. For further comments on the development in SBS Friction, please refer to pages 10-11 in the Management commentary.

The increase in other external expenses and the reduction of staff costs compared to 2015 are primarily attributable to the relocation of the packaging function to Poland.

Special items make up a negative DKK 11 million against a negative DKK 11 million in 2015, and relate primarily to the transfer of the packaging function of brake discs to an external cooperation partner in Poland as well as restructurings.

EBITDA makes up DKK 39 million after special items compared to DKK 44 million in 2015.

Depreciation and impairment losses total a negative DKK 19 million against a negative DKK 15 million in 2015 which is attributable to the impairment loss on the property in Holstebro totalling DKK 5 million.

EBIT then totals DKK 19 million against DKK 29 million in 2015.

Finance income and finance costs totalled a negative DKK 26 million against a negative DKK 18 million in 2015. The increase relates to the fact that part of the interest rate swap is considered excess hedging following the sale of the Notox property, etc. in the course of 2016. An amount of a negative DKK 10 million has thus been reclassified from other comprehensive income to the income statement.

Profit from continuing operations before tax then totals a negative DKK 7 million against DKK 11 million in 2015. The loss after tax from continuing operations total a negative DKK 4 million.

The profit after tax from discontinuing operations totals DKK 10 million and relates to an accounting profit on the sale of the Notox activity of DKK 9 million and costs and adjustment of deferred tax assets relating to the Notox activity.

Profit for the year totalled DKK 6 million in the 2016 financial year.

Changes in statement of financial position

DKK million	2016	2015
Non-current assets	160	164
Current assets	281	299
Non-current liabilities	451	461
Current liabilities	174	200
Equity	-184	-197

Total assets amounted to DKK 441 million at 31 December 2016 compared to DKK 463 million at 31 December 2015.

Non-current assets totalled DKK 160 million at year-end 2016 compared to DKK 164 million at year-end 2015. The decrease mainly relates to the assets sold regarding Notox.

Current assets totalled DKK 281 million at year-end 2016 compared to DKK 299 million at year-end 2015. At the end of 2015, current assets were affected by the relocation of the packaging operation from Holstebro to Poland, which implied an increase in inventories. The inventories are now normalised, and our other measures to streamline the supply chain now take effect, and total inventories have been reduced by DKK 30 million.

Moreover, the Group has entered into a swap agreement in the nominal amount of EUR 7.1 million to hedge the floating interest on the Group's mortgage debt regarding the Danish properties. Fair value of the interest rate swap represented a negative DKK 14.9 million at 31 December 2016.

FINANCIAL REVIEW AND EXPECTATIONS OF 2017

SBS divested the Notox activity in 2016, inclusive of the properties. Accordingly, the mortgage debt regarding the properties in Aakirkeby and in Svendborg was paid off. In addition, the Group has put its property in Holstebro up for sale, and consequently, the mortgage debt relating to this property is expectedly also being paid off soon.

Based thereon, part of the interest rate swap is deemed to relate to excess hedging. The proportionate share of fair value of the interest rate swap, which is no longer included in a hedge, totals DKK 10 million before tax (DKK 8 million after tax) and has been reclassified from other comprehensive income to the income statement as finance income and finance costs at 31 December 2016.

Non-current liabilities amounted to DKK 451 million at year-end 2016 compared to DKK 461 million at year-end 2015. In December, the Group entered into an agreement with the Group's banking institutions to extend the existing credit agreement to the effect that it covers the expected financing requirements up to 30 April 2018. In March 2017, a further extension of the credit agreement was agreed with the Group's banking institutions, see also the section "Events after the reporting period" below and note 2.

Interest-bearing debt of the Group represented DKK 469 million at 31 December 2016 against DKK 484 million at 31 December 2015. The development of the interest-bearing debt is primarily attributable to the sale of the assets regarding Notox and a reduction of the Group's inventories.

Current liabilities totalled DKK 174 million at 31 December 2016 against DKK 200 million at 31 December 2015. The change primarily relates to a reduction of the financing from suppliers.

Investment in property, plant and equipment amounted to DKK 10 million compared to DKK 12 million in 2015.

Equity represented a negative DKK 184 million at 31 December 2016 against a negative DKK 197 million at 31 December 2015.

Changes in cash flows

DKK million	**2016**	**2015**
Cash flows from operating activities	8	29
Cash flows from investing activities	-15	-14
Cash flows from financing activities	21	9
Cash flows from discontinuing activities	-14	-24
Net cash flows	**-**	**-**

Parent Company
The Parent Company acts as shared service centre for the Group and the subsidiaries. The Parent Company realised EBITDA of a negative DKK 7 million in 2016 compared to a negative DKK 4 million in 2015. EBITDA in 2016 is negatively impacted by special items of DKK 2 million.

Depreciation and impairment losses total a negative DKK 6 million against a negative DKK 3 million in 2015 which is attributable to the impairment loss on the property in Holstebro totalling DKK 5 million. EBIT then makes up a negative DKK 13 million against a negative DKK 7 million in 2015.

The reversal of the impairment loss on the investment in subsidiaries of DKK 9 million relates to the profit from the divestment of the Notox activity in September 2016.

Dividends from group enterprises total DKK 25 million against DKK 80 million in 2015.

Finance income and finance costs total a negative DKK 21 against a negative DKK 8 million in 2015.The increase relates to the fact that part of the interest rate swap is considered excess hedging following the sale of the Notox property, etc. in the course of 2016. An amount of a negative DKK 10 million has thus been reclassified from other comprehensive income to the income statement.

Profit/loss from the continuing operations before tax totals DKK 0 million. Profit after tax from the continuing operations then totals DKK 4 million.

Profit after tax from discontinuing operations totals DKK 15 million and relates to the accounting profit from the sale of the Notox property, etc.

Profit for the year totalled DKK 19 million in the 2016 financial year.

The Parent Company's equity amounted to a negative DKK 26 million at 31 December 2016 compared to a negative DKK 52 million at 31 December 2015.

Events after the reporting period
In March 2017, the Group agreed on an extension of the credit agreement with its banking institutions to the effect that it covers the expected financing requirements up to 1 April 2020. Group management finds the capital resources adequate to cover planned activities and continued operations up to 1 April 2020 based on existing credit facilities.

No other significant events have occurred after the end of the period.

Outlook for 2017
The Group expects to report revenue in 2017 of DKK 760-790 million and EBITDA recurring of DKK 55-65 million.

SBS AUTOMOTIVE

SBS Automotive is the Group's largest business area accounting for just above 80% of the Group's total revenue.

The division's business foundation includes sourcing, completion, inventory management, branding and distribution of brake parts, steering components and other wear parts for the European fleet of cars.

SBS Automotive has sales and distribution platforms in Germany, France, Denmark and the UK. The entity's supply concept is flexible and customised and includes solutions based on daily supplies, which are directed at regional and local distributors' needs for a short response time as well as at continuous orders which are in particular demanded by importers and distribution channels with central inventory functions. As to logistics and packaging operations for brake discs in Stettin, Poland, SBS Automotive furthermore provides customised products under the customers' own brands.

SBS Automotive primarily sells its products on the free European aftermarket for spare parts for passenger cars and delivery vans. The main part of the volume is sold using our own brand, NK, which is being marketed in Europe. The remaining part of sales is primarily made using private labels. In recent years, SBS Automotive has systematically been working with brand building and repositioning of the NK brand most of which have been successful, and the market assesses that the NK brand's position today is significantly higher than in previous years.

Germany represents SBS Automotive's largest single market. In addition, France, Scandinavia and Great Britain and not least the Eastern European markets, in particular Russia, play an important role for the division's sales activities.

The customer portfolio comprises a broad spectrum of distributors on the automotive aftermarket, including international groups, importers, capital chains, purchasing groups and independent, local wholesalers. In addition, the portfolio comprises a number of operators that sell brake parts on-line.

The product range comprises products which are subject to wear and tear and replaced as the vehicle is used. This contributes to ensuring a market with relatively low sensitivity to market fluctuations.

The European market for auto parts is characterised by being large, stable and fragmented. The car population is generally on the increase, and established analysts expect continued market growth in the next years.

The market is divided into two primary segments. The authorised market (OES), controlled by the car manufacturers and their dealer network, and the free aftermarket which services all car brands. Traditionally, the authorised network services new cars, whereas the old car population is mainly serviced by the free aftermarket. The traditional distribution channel is: from manufacturer to end user via importers, wholesalers and workshops/shops, but may take other forms. Streamlining of the set-up of the value chain is ongoing, both vertically and horizontally, tending towards large units. Private equity funds are increasingly buying themselves into the industry, and capital chains gain ground to the detriment of the free distributors. Moreover, there is a trend towards increasing sale directly to the end user via the Internet.

SBS Automotive is positioning itself in the value chain as a supply chain in particular specialised in sourcing., inventory management and distribution servicing distributors broadly speaking. Value creation materialises through global sourcing, completion, inventory management, branding and distribution.

Business development in 2016:
Progress in Eastern Europe - streamlining of logistics operations

Financial ratios

DKK million	**2016**	**2015**
Revenue	647	649
EBITDA recurring	33	41

The cyclical development on the free European market for spare parts was characterised by the well-known seasonal fluctuations, however, demand was generally lower than usual. However, demand differed considerably in the various regions. In Eastern Europe and in particular in Russia, the market was characterised by growth after some critical years, whereas the UK market, following BREXIT and the decreasing pound sterling rate of exchange, has been difficult. The central European markets, including the important German market, showed a modest level of activities. Likewise, the year under review was characterised by continued consolidation implying among others that US capital chains were making considerable buys in Europe.

This has intensified competition even further not least in the large and modern repair markets for which growth opportunities are relatively limited. However, in the Eastern European markets, the competitive environment seems more favourable following the growth in the car population in general.

SBS Automotive's revenue was DKK 647 million against DKK 649 million in 2015. Development in revenue fluctuates considerably across regions. Russia, Poland and the Czech Republic demonstrated considerable progress. In the first-mentioned, SBS Automotive has maintained its customer portfolio during the crises in the past years, which means that the division obtained full revenue effect of the improvement in business conditions during 2016, whereas the sale to the UK market was, as mentioned above, negatively affected by the consequences of BREXIT. Therefore, the entity has not yet obtained the effect expected following the establishment of a warehouse in Middle England in 2015.

The relatively week market and changes in the allocation of revenue had a negative effect on the division's EBITDA.

Throughout 2016, SBS Automotive was streamlining the supply chain in order to establish the market's most efficient and flexible concepts in the long run. Focus was in particular on break disks and brake callipers. The close-down of the packaging facility in Holstebro initiated in the autumn of 2015 and the transfer to a third-party logistics solution i Stettin in Poland, were successfully completed in the first half of the financial year. The new set-up will strengthen SBS Automotive's competitiveness in the form of increased flexibility and lower costs.

In this relation, SBS Automotive's organisation was streamlined to provide a cross-organisational division between logistics and sale. In the long run, these measures will strengthen the Group's focus thereon and the efficiency within both areas.

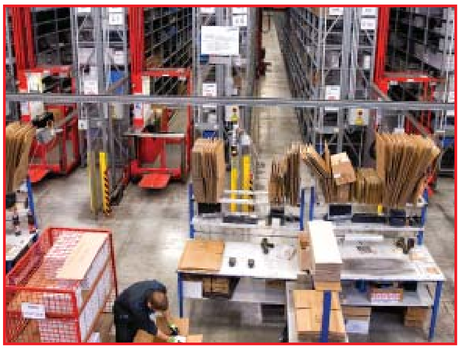
Strategic foundation and development
SBS Automotive's strategy plan is based on the entity's position as one of the market's most flexible players, which requires the ongoing development of the entire value chain. In 2015, the entity initiated a process to transform the entity from being a production-intensive enterprise to becoming an enterprise with sourcing, completion, inventory management, branding and distribution as value-creating operations. This process continued in 2016 with the transfer of the packaging facility for brake discs and brake callipers and with the above-mentioned, organisational division and sale across the corporate structure. Throughout the strategy period, SBS Automotive will adjust the overall, strategic focus. The past many years' development was primarily driven by increased revenue. This strategy has proven very successful. However, the market has changed and thereby there is a need for bringing a wider range of parameters into play. SBS Automotive is still to show top line growth, but development is to a higher extent to adjust to profitability and earnings.

Value creation must take place based on the customer's general needs increasingly focusing on important parameters such as quality, logistics, customer service and service that relate to products.

In the period, focus will in particular be on streamlining the entire supply chain - from sourcing to invoicing. Examples of strategic initiatives that support such approach include new sourcing concepts for key product areas, optimisation of inventory and logistics operations, development of customised product management tools and improved trading processes through digitalisation.

In terms of sales, the Company will primarily focus on its own brands and continue the development of the NK brand, which is positioned as "value for money" but now tending to be positioned as "lower premium" which will support the strategic goals for the division.

Furthermore, in terms of sales, efforts will focus on the B2B segment, which is SBS Automotive's traditional market. Customer segments characterised by fierce competition and significant focus on price such as e.g. operators distributing directly to the end user not using the traditional sales channels, will be given a lower priority and only form part of the sales channel to the extent that the overall strategic earnings objective can be fulfilled.



SBS FRICTION

SBS Friction develops, manufactures and distributes brake pads and friction solutions for motorcycles, scooters and other two-wheeled vehicles as well as for a number of specialised areas that apply friction technology, including wind turbines.

SBS Friction holds a strong market position based on high-technology know-how, innovation, own production and high reliability of supply, and not least products which meet market demands for performance, security and wearability.

The division operates globally and has business activities within the OEM market and within the free aftermarket. The European aftermarket for motor cycle parts makes up the primary market at which SBS Friction is a leading supplier of brake pads. Italy, France, Germany and Spain make up the most important individual markets. In addition, SBS Friction sells its products in the US, Canada, Japan, Australia and in a number of other countries world wide. At the OEM market relates to brake systems developers, manufacturers of vehicles, wind turbines or other machines and plants using friction technology.

Activities of the division are located in Svendborg.

Business development in 2016:
New record year - focus on green development

Financial ratios

DKK million	**2016**	**2015**
Revenue	123	117
EBITDA recurring	22	18

The European aftermarket for motorcycles, which is SBS Friction's primary market segment was characterised by favourable trading conditions most of the year. The spring generally saw an early start, and driving conditions for motor cycles remained favourable far into the fall, which stimulated demand for wear parts such as brake pads.

For the second year in a row, SBS Friction reported record-high revenue and earnings. Revenue came in at DKK 123 million against DKK 117 million in 2015, representing an increase of 5%. EBITDA also developed very positively and showed an increase of 22%.

The positive trend is primarily driven by the European aftermarket, but also the US market demonstrated progress although the market share is still modest. Considering the growth in 2016, SBS Friction solidifies its market leader position which underpins that the entity's business model with own developed products of high quality, Danish-based, highly automated and customised products, a complete program for the motor cycle portfolio as well as efficient logistics is indeed a strong and sustainable concept.

As to the OEM market, i.e. the market for brake pads for first-time mounting, several projects were initiated in 2016 for new motor cycle models, which are to be launched in the coming years. In addition, an agreement was closed with a major wind turbine manufacturer on the future supply of brake pads for a very common type of wind turbine.

2016 was also an active year product and assortment-wise. Among others a new "high-end" brake lining for new, advanced motor cycle models was launched just as was a lining particularly for the comprehensive classic road race segment. Furthermore, the assortment was widened by an ancillary equipment programme, and generally the strategy to offer a wider product range saw the light in 2016 - a product range which also includes product types other than brake pads.

At the end of 2016, SBS Friction received a promise from the Innovation Fund Denmark that they will provide subsidies as of 2017 for the development of new, environment-friendly brake pads more or less without the use of heavy metals. It is a three-year project which is expected to give SBS Friction a competitive advantage in relation to future legislation and customer demands.

Strategic foundation and development
SBS Friction is a development and production-based business area with development, production, sale and branding as value-creating activities.

Therefore, in 2016 sharp focus was on the development of brake lining, process optimisation which may ensure competitiveness, and organisational as well as knowledge development that meet future qualification requirements.

Adjustment and development of products, processes and quality control that live up to the extremely high requirements from the OEM market, made up key action areas of SBS Friction.

As to organisational and qualification development, the entity focused on streamlining and adjusting its organisation in 2016 to ensure that it meets future demands on a growing entity. New knowledge resources were added within a number of key areas, just as knowledge development of the existing organisation is a continuous process. High flexibility and prompt adaptation of the organisational structure to current market conditions are also significant parameters in ensuring competitive production in a high-cost country such as Denmark. Lean will still be the central element for efficiency measures approach, and also in 2016, we completed projects that build on the basis already established.

In future, SBS Friction will focus on continued global growth in the aftermarket. The leading market position in Europe is to be maintained and developed. Meanwhile, the entity needs to work hard on improving the market share on the US market and selected overseas markets, particularly in Asia.

As to the OEM market, which covers supplies for first-mounting, the Company targets at increasing its business within the two-wheeled vehicles for which the target group includes vehicle manufacturers and brake system developers and within specialised areas such as wind turbines and go carts.

SBS FRICTION

SBS Friction's business model is based on systematic and continuous product development. Development activities in the coming strategy period will primarily concentrate on environment-friendly brake lining. Green products are deemed to be in line with the market trend and are expected to give SBS Friction a competitive advantage. The green development process is supported by the Green Pad Project which is subsidised by the Innovation Fund Denmark.

Assortment-wise, SBS Friction will develop from being a pure brake pads manufacturer to being able to offer a wider range of related products, including brake discs and various ancillary equipment in order to increase the total potential market volume. The own production will still form the basis of the entity; however, analyses show that supplementary product areas may profit from the brand position, market strength and customer portfolio which are already established via the brake pads.

Furthermore, SBS Friction will ensure continued global competitiveness through continuous investments and efficiency programmes in the entity's value-creating operations.

CORPORATE GOVERNANCE AND OTHER ISSUES

SBS has prepared a statutory statement on corporate governance, see section 170b of the Danish Financial Statements Act, for the financial year 2016 and published this statement on the Company's website www.sbs.dk/investor/corporate-governance.aspx.

The statement includes an overview of how SBS complies with recommendations on corporate governance together with a description of the main elements of the Group's internal control and risk management systems, and the composition of the Group's management bodies.

SBS' Management made an update in 2016 of the strategy plan for the Group and the individual business areas. The plan is reassessed on a regular basis and covers the period up to and including 2019.

At present, the Company's Board of Directors comprises six members thereof three employee representatives. At the extraordinary general meeting on 27 May 2016, Peter Eriksen Jensen, Lars Radoor Sørensen and John Staunsbjerg Dueholm were elected to the Board of Directors. Tage Reinert and Tim T. Albertsen resigned from the Board of Directors. Subsequently, the Board of Directors appointed Peter Eriksen Jensen as its Chairman and Lars Radoor Sørensen as its Vice Chairman.

Management of the Group would like to take the opportunity to thank Tage Reinert and Tim. T. Albertsen for their efforts for the Group.

Organisational focus areas
Throughout the entire Group particular focus is directed at digitalisation initiatives that can streamline the business models and ensure prospective and efficient handling of the business procedures in future. By way of example, increased digitalisation of transactions and customer communication i.e. by means of new webshops, new digitalised communication tools as well as electronic structuring of product data which among others is to improve customer service and to ensure more efficient, internal processes.

The SBS Group enjoys great loyalty and stability both from Management and employees. Considering the rapidly changing surrounding world and organisation, it is necessary to develop management skills as well as special skills of the employees to fulfil the Group's growth targets. Therefore, those areas will continue to be a focal point in the coming strategy period.

Attracting new talented individuals to ensure continuity in the organisation is also a high priority. Therefore, SBS actively participates in recruitment events at universities, colleges, etc.

Knowledge resources and R&D activities
The SBS Group has specialised business areas that each makes high specific demands as to knowledge and R&D resources. These areas are described under the divisions.

Environmental considerations
Within several areas, the SBS Group is involved in activities to the benefit of the environment. This applied not least to the project related to the development of new green brake pads for motorcycles.

Also when it comes to processes and materials, the SBS Group's entities consider the environmental impact. It is often small projects and ongoing improvements that in the aggregate provides a positive environmental impact. Thus projects have been carried through which are directed at the recycling of board packaging in the German company and at energy savings in the production of motor cycle pads.

CSR - corporate social responsibility, see section 99a of the Danish Financial Statements Act
At present, SBS has not laid down specific policies and strategies for corporate social responsibility, including human rights, anti corruption, environment and climate impact. In its basic values, SBS has defined the general framework of how the Company wishes to act in relation to its surroundings.

Goals and policies for the gender quotation on the management board of Scandinavian Brake Systems A/S, see section 99b of the Danish Financial Statements Act
The Board of Directors of Scandinavian Brake Systems A/S has laid down the Company's goals and policies for the underrepresented gender in Scandinavian Brake Systems A/S and on Group Management in general. Goals and policies also apply to the subsidiaries SBS Automotive A/S and SBS Friction A/S, in which the members of the Board of Directors are the same as in Scandinavian Brake Systems A/S, except for the fact that these entities are not under an obligation to have employee representatives.

In 2016, new members were elected for the Board of Directors; however, the Company did not succeed in finding a female member with the right qualifications and experience. At the end of 2016, the Board of Directors therefore had no female members elected by the general meeting. Employee representatives accounted for one woman.

The Board of Directors intend to work at increasing the share of female members on the Board of Directors at least to 25% in 2020 and Scandinavian Brake Systems A/S will still strive at a more equal representation of the sexes at management level, as Management acknowledges the advantages of having a broad spectrum of managers at all levels as regards experience, specialised knowledge, culture and sex, etc.

The Company's managers at Board of Directors and functional management levels should generally be elected/employed based on their overall qualifications, and it is essential that the managers have the right qualifications irrespective of their sex.

The Company aims at increasing the number of female members at Board of Directors and functional management levels to 40% at the end of 2018.

The share of female members at Board of Directors and functional management levels this year was 43% which means that the 40% goal has been fulfilled.

The Board of Directors will regularly follow up on the issue and once a year examine the gender quotation on the Management Board, and in that connection consider any initiatives necessary in relation to the goals and policies laid down by the Board of Directors.

Employee representatives on the Board of Directors
The Board of Directors of Scandinavian Brake Systems A/S comprises three members appointed by the employees of which one is a group representative.


sbs

RISKS

Risk policy
Prompted by its operations, investments and financing, the Group and the Parent Company are exposed to a number of financial risks, including market risks (currency risks, interest rate risks and risks relating to raw materials), credit risks and liquidity risks. The Group's financial risk management is centralised. The general framework for financial risk management is laid down in the Group's financial policy, which is approved by the Board of Directors. It is the Group's policy not to engage in active speculation in financial risks. Thus, the Group's financial management is aimed at managing and reducing the financial risks directly attributable to the Group's operations, investments and financing. The Group's risk diversification or risk management have remained unchanged compared with preceding financial years.

Legislation
The SBS Group primarily operates in markets governed by EU legislation or similar national legislation. Particularly in three areas, SBS' business foundation is affected by legislation: competitive conditions, environment and product safety.

As to competitive conditions, there has been a tendency for some years towards liberalisation among other things reflected by EU's general block exemption regulation for the automotive industry.

When it comes to the environment, particularly the limitations in the application of certain materials damaging to the environment, such as e.g. heavy metals, are emphasised; among other things in relation to the development of brake pads for motorcycles.

In terms of product safety, international as well as national type approvals such as ECE R90 and ABE are significant to the SBS Group's enterprises.

It has been assessed that there are no ongoing or planned legislation posing a risk to SBS' business opportunities and business development.

Market and competitive conditions
SBS' primary market is the European aftermarket for spare parts for cars and motorcycles. SBS' product ranges comprise wear parts, which are replaced one or several times during the lifetime of a vehicle. This means that SBS' market base is essentially stable and resilient to market fluctuations. A small part of the total revenue relates to the OEM market at which demand depends on new production of vehicles or machines and where cyclical fluctuations may generally be considerable.

Risks relate in particular to the general structural rationalisations and mergers in the industry, which may change the supply and demand situation, and which then again may affect the competitive environment.

Currency risks
The Group is exposed to exchange rate fluctuations as the individual companies of the Group carry out purchases and sales transactions and have receivables and payables in currencies other than their own functional currency.

The Group hedges currency exposure considering projected future cash flows and projected future exchange rate movements.

The Group's currency risks are primarily hedged by settling income and expenses in the same currency. DKK and EUR are considered as one currency due to Denmark's fixed exchange-rate policy towards EUR. The Group's currency risks relate primarily to USD and GBP. Therefore, the Company uses derivative financial instruments to hedge its risks related to those currencies based on expected exchange rate developments.

Hedging is mainly achieved through forward exchange contracts and options for receivables and – based on an individual assessment – through currency swaps and liabilities.

The main part of the Group's production takes place in Denmark. The export opportunities may therefore diminish if the purchasing power on the export markets is diminished through a strengthening of the DKK against foreign currencies.

However, a considerable part of the export goes to Euro countries, which is why the risk is assessed to be limited as DKK is closely linked to EUR.

The Group's most significant commercial currency exposure is deemed to relate to sales and purchases outside the Euro area.

The sensitivity of the consolidated equity does not deviate significantly from the effects on the profit for the year. The consolidated income statement and equity are affected by the investment in foreign subsidiaries and by exchange rate fluctuations when translating into DKK in the financial reporting.

Interest rate risks
It is group policy to hedge interest rate risks on consolidated loans when interest payments can be hedged at a satisfactory level. Hedging is usually made by interest swaps under which variable-rate loans are rescheduled into fixed-rate counterparts. The Group's financing is based on variable-rate loans/credits and the Group is exposed to interest rate fluctuations.

Liquidity risks
The liquidity risk expresses the risk that the raising of loans including refinancing takes place on worse conditions and/or at higher costs or that the Group in a worst-case scenario will not be able to provide sufficient liquidity for its operations and investments. SBS' liquidity reserve essentially consists of unutilised credit facilities at the Group's banks. The Group strives to hold sufficient liquid funds to ensure appropriate room for manoeuvre in case of unforeseen fluctuation in liquidity.

The Group's cash resources at 31 December 2016 are specified as follows:

DKK million	**2016**
Cash, activities	0.1
Undrawn credit facilities	26.8
Cash resources at 31 December 2016	**26.9**

RISKS

Undrawn credit facilities comprise drawing facilities at the Group's banking institutions (bank line).

With respect to liquidity risks and going concern requirements, reference is made to notes 2.

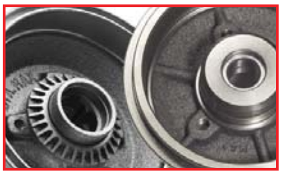
Credit risks

The Group's credit risks primarily relate to trade receivables. The maximum credit risk attributable to financial assets correspond to the value recognised in the statement of financial position. Efforts are made to minimise risks related to giving credit by effective credit management and credit rating by establishing credit insurance or alternative collateral in the event of large receivables. The Group's policy for assuming credit risks entails that all major customers and other partners are subject to regular credit rating. The Company's trade receivables normally fall due no later than three months after the invoicing date. Historically, and owing to systematic monitoring and follow-up, the Group has incurred relatively small losses due to non-payment from customers. The credit quality varies to a minor extent according to customer profile and geographic markets, but the difference in risk is not assessed to be significant.























SHAREHOLDERS

Investor relations
Scandinavian Brake Systems A/S wants to maintain an open dialogue with its shareholders, potential investors, analysts, media and other stakeholders on all relevant matters, activities and measures relating to the Company.

ID code and share capital
The Company's nominal share capital amounts to DKK 32,085,000, corresponding to 3,208,500 shares at a nominal value of DKK 10 each. SBS' shares are traded on the Nasdaq OMX Nordic Exchange in Copenhagen under ID code DKK0060042612. All shares rank equally. There are no restrictions on the transferability and no restrictions on voting rights.

Dividend
Scandinavian Brake Systems dividend payments have been suspended as a consequence of the credit agreement entered into with the Group's bankers. In connection with this, it has been agreed that no dividend will be distributed during the term of the credit agreement and until expiry on 1 April 2020. The shareholders' value-creation will thus take place through any increase in the share price. Upon expiry of the period, the Board of Directors will present a new dividend policy.

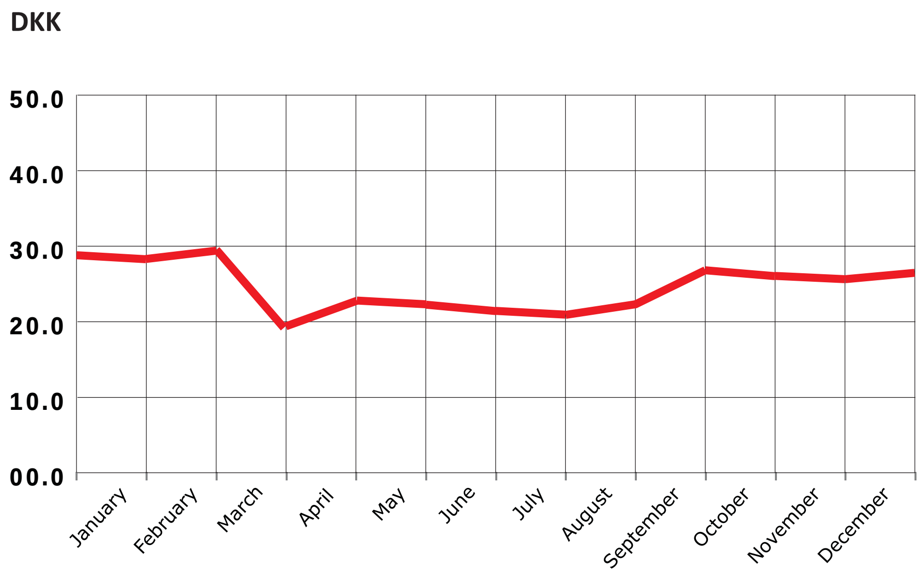
Treasury share policy
According to the general meeting's authorisation, SBS can at the maximum acquire treasury shares at a nominal amount of DKK 3,208,500, equivalent to 10 % of the share capital, until the general meeting in 2017. The Company's holding of treasury shares made up a nominal amount of DKK 13,130, equivalent to 0.04 % of the share capital at the end of 2016. Additional acquisition of treasury shares is not possible until the share capital has been re-established. The development in the Company's share price is disclosed below.

Articles of Association
The Company's articles of association may be amended by a simple majority at a general meeting if the proposed amendment is notified to the shareholders at the latest three weeks prior to holding an ordinary or extraordinary general meeting and if 66.7% of the issued shares are represented at the general meeting

Rules for appointing and replacing members of the Board of Directors
At present, SBS has Three board members elected by the general meeting and three members elected by the employees of which one is a group representative. The board members elected by the general meeting are elected for one year, while the members elected by the employees are elected for a four-year period. Thus, all members elected by the general meeting must be re-elected every year, or new members must be elected to replace them. This also includes the chairman's and the deputy chairman's position.

Management compensation agreement in case of resignation/acquisition
In connection with change of control, CEO Mads Bonde may ask for his resignation and will in that case receive severance pay corresponding to one year's salary.

No other agreements have been made with the Board of Directors, other executives or employees on financial compensation upon the change of control.



Exchange rate movements 2015

BOARD OF DIRECTORS

Peter Eriksen Jensen (1954)

Chairman
Elected the first time in 2013 (Chairman as of 2016)
Executive Management

Primary qualifications
Strategic development
General executive management
International sale and marketing
Supply chain management
Turnarounds

Managerial posts
Chairman of the Board of Directors of Belid Lighting AB, Herstal Gruppen A/S, Im. Stiholt A/S, Jørgen Kruuse A/S, Summerbird A/S, Vitera A/S and 3L-Ludvigsen A/S.

Member of the Board of Directors in Broen LAB A/S, E-Vet A/S, Ima Ejendomme ApS, Ken A/S, Palfinger Danmark A/S, Stiholt Holding A/S and CEO in Stiholt Holding A/S, International Management Advice ApS,and B&P Holding ApS.

This member is not considered independent following his management posts in the principal shareholder company Stiholt Holding A/S.

John Staunsbjerg Dueholm (1951)

Elected 2016
Master of Commerce

Primary qualifications
Strategy and business development
Operations optimisation
Management and organisation development
Finances and accounts

Managerial posts
Chairman of the Board of Directors in BWBP Fonden, CIPP Technology Holding ApS, Hydratech Industries A/S, iMPREG Partners A/S, Jetpak AB, SSG A/S, SSG Group A/S and SSG Partners A/S.

Member of the Board of Directors in Allianceplus Holding ApS, Globus Wine A/S, InterMail A/S and ProData Consult A/S.

This member is considered independent.

Lars Radoor Sørensen (1963)

Vice Chairman
Elected 2013
Master of Commerce

Primary qualifications
International automotive industry experience
Supply chain management and IT management
Business process development and change management

Managerial posts
Member of the Board of Directors of Svend Høyer A/S and COO i Puma SE.

This member is considered independent.

BOARD OF DIRECTORS

Jytte Petersen (1957)

Elected 2012
Head of Payroll

Employee representative

Jan B. Pedersen (1959)

Elected 2002
Warehouse assistant

Employee representative

Henrik Bjørnbak (1971)

Elected 2012
Business consultant, ERP

Employee representative

EXECUTIVE BOARD

Mads Bonde (1967)

CEO
Employed in 2014
BSc production engineering
Bachelor of Commerce degree Organisation
Executive MBA

Carsten Schmidt (1971)

CFO
Employed in 2002
B. Com. Management Accounting, auditor

Managerial posts
Chairman of the Board of Directors in Butik Karneval ApS and Gorm Larsen Nordic Holding A/S.

COMPANY INFORMATION

AUDITORS
Ernst & Young P/S
Vestre Havnepromenade 1A
DK-9000 Aalborg

LAWYERS
Kromann Reumert
Sundkrogsgade 5
DK-2100 Copenhagen Ø

BANKERS
Nordea Bank Danmark A/S
Danske Bank A/S

OWNERSHIP
The following shareholders own more than 5% of the share capital:
Stiholt Holding A/S
Trafikcenter Sæby Syd 6-7
DK-9300 Sæby
Stake: 56.5%

HCS 82 APS
C/O Adv. Fa. F. Bruhn-Petersen
Toldbodgade 57, 2
DK-1253 Copenhagen K
Stake: 11.7 %

ULTIMATE PARENT COMPANY
EMPN Holding ApS
Knudsejevej 4
DK-9352 Dybvad

STOCK EXCHANGE ANNOUNCEMENTS 2016
10.03. Close-down of Notox A/S contemplated.
15.03. Close-down of Notox A/S
29.03. Announcement of the financial statements for 2015, including the annual report for 2015
30.03. Notification of annual general meeting
26.04. General meeting
30.04. First meeting of the Board of Directors
30.04. Notification of extraordinary general meeting
27.05. Extraordinary general meeting
07.06. First meeting of the Board of Directors
31.08. Interim report – first half 2016
15.09. SBS sells the assets in Notox to Landson Emission Technologies A/S
22.11. SBS' expectations of 2016 and 2017
22.11. Financial calender 2017

STOCK EXCHANGE ANNOUNCEMENTS 2017
27.03. Announcement of the financial statements for 2016, including the annual report for 2016

FINANCIAL CALENDER 2017
15.03. Latest deadline for submitting proposals for the general meeting
27.03. Announcement of the financial statements for 2016, including the annual report for 2016
31.03. Notification of annual general meeting
27.04. Annual general meeting
31.08. Interim report
30.11. Financial calender 2018

STATEMENT BY THE BOARD OF DIRECTORS AND THE EXECUTIVE BOARD

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Scandinavian Brake Systems A/S for 2016.

The annual report has been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 Group's and the Company's financial position at 31 December 2016 and of the results of the Group's and the Company's operations and cash flows for the financial year 1 January – 31 December 2016.

In our opinion, the Management's review includes a fair review of the development in the Group's and the Company's activities and financial circumstances, results of operations, cash flows and financial position as well as a description of material risks and uncertainties that the Group and the Company face.

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

Svendborg, 27 March 2017

EXECUTIVE BOARD

Mads Bonde, CEO

Carsten Schmidt, CFO

BOARD OF DIRECTORS

Peter Eriksen Jensen,
Chairman

Lars Radoor Sørensen,
Vice Chairman

John Staunsbjerg Dueholm

Henrik Bjørnbak

Jytte Petersen

Jan B. Pedersen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Scandinavian Brake Systems A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Scandinavian Brake Systems A/S for the financial year 1 January – 31 December 2016, which comprise an income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including accounting policies, for both the Group and the Parent Company. The consolidated financial statements and the parent company financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 as adopted by the EU and additional requirements of 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements and the parent company financial statements for the financial year ended 31 December 2016. These matters were addressed in the context of our audit of the consolidated financial statements and the parent company financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" section, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements and the parent company financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements and parent company financial statements as a whole.

Liquidity and financing

The Group's and the Parent Company's equity at 31 December 2016 is negative at DKK 183.8 million and DKK 25.9 million, respectively. Management ensures that the Group's and the Parent Company's cash resources are sound at any time and that sufficient liquidity is available to meet the Group's and the Parent Company's current and future liabilities as they fall due. As mentioned in note 2 under the heading "Liquidity and financing", Management closed a new credit agreement with the Group's bankers in March 2017 which is in force for three years until 1 April 2020. The new credit agreement is subject to various financial as well as non-financial terms and conditions (covenants). When making assessments, Management estimates the cash requirements based on expectations of development in revenue, balance sheet and cash flow based on the 2017 budget and forecasts for 2018 and 2019 compared with the credit facilities as well as conditions and covenants in the credit agreement with the Group's bankers. Reference is made to note 2 under the heading "Liquidity and financing" in the consolidated financial statements and the parent company financial statements.

In the course of our audit we verified whether the assumptions and estimates used by Management regarding budgets and forecasts are prepared based on the Group's business plan for 2017-2019 and whether Management's significant assumptions regarding revenue and costs as well as changes in working capital for the existing activities are in line with historic results of operations. Moreover, we assessed whether information on liquidity and financing lives up to the requirements in the accounting standards.

Deferred tax assets

The Group and the Parent Company have significant recognised and non-recognised tax assets regarding temporary differences between the carrying amount and the tax base of assets and liabilities as well as tax loss carryforwards. Tax assets recognised accounted for DKK 46.9 million at 31 December 2016. When assessing deferred tax assets, Management estimates whether the deferred tax assets can be offset against the expected taxable profits within a foreseeable future. This is decisive for the recognition or non-recognition of tax assets. As the assessment of deferred tax assets involves elements of estimates, we assess that the area is a key audit matter. Reference is made to note 2 under the heading "Recoverability of deferred tax assets" to the consolidated financial statements and the parent company financial statements.

During our audit we evaluated the assumptions and estimates applied by Management to assess the probability of generating sufficient future taxable profits based on the budget for 2017 and forecasts for 2018 and 2019 prepared based on the business plan for the entity and discussions with Management. Moreover, we assessed whether information on deferred tax assets lives up to the requirements in the accounting standards.

Inventories

The Group's inventories totalled DKK 149,8 million at 31 December 2016, which corresponds to 34% of the balance sheet total. The area is thus a key audit matter. The valuation of inventories is based on Management's estimates, including the assessment of obsolescence and slow-moving items as well as the recognition of production overheads. Reference is made to note 2 under the item "Inventories" to the consolidated financial statements.

Our audit included a control on a test basis of the counting of physical inventories, test of business procedure regarding floating goods and obtaining of external confirmations of inventories held by third parties. During the audit or inventories, we made a sample test of Management's calculations of cost plus production overheads. Furthermore, we considered the model for inventory write-down where cost exceeds net realisable value. During our audit, we tested the completeness of the basis for calculating and testing the mathematical accuracy of the calculation. Furthermore, we considered the reasonableness of the estimates applied by Management in the model and assessed the estimates made based on past history and estimates made in previous years. Moreover, we assessed whether information on inventories lives up to the requirements in the accounting standards.

Statement on the Management commentary

Management is responsible for the Management commentary.

Our opinion on the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company financial statements, our responsibility is to read the Management commentary and, in doing so, consider whether the Management commentary 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 commentary provides the information required under the Danish Financial Statements Act.

Based on our procedures, we conclude that the Management commentary 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 Statements Act. We did not identify any material misstatement of Management commentary.

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 International Financial Reporting Standards as adopted by the EU and additional requirements of 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 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.

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

We also:

// Identify and assess the risk of material misstatements of the consolidated financial statements and the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

// Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and 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 consolidated financial statements and the parent company 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 Group's and the Parent 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 consolidated financial statements and the parent company 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 Group and the Parent Company to cease to continue as a going concern.

// Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

// Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and the parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Aalborg, 27 March 2017

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Hans B. Vistisen
State Authorised Public Accountant

Torben Ahle Pedersen
State Authorised Public Accountant

INCOME STATEMENT

DKK million Notes		CONSOLIDATED 2016	CONSOLIDATED 2015	PARENT COMPANY 2016	PARENT COMPANY 2015
	Revenue	**769.7**	**766.2**	**23.3**	**24.7**
	Cost of raw materials and consumables	-441.3	-495.7	-	-
	Changes in inventories of finished goods and work in progress	-40.7	21.2	-	-
4	Other external costs	-121.8	-114.4	-9.5	-7.2
5	Staff costs	-116.4	-122.5	-18.2	-21.2
	Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring)	**49.5**	**54.8**	**-4.4**	**-3.7**
6	Special items	-10.9	-11.1	-2.3	-0.3
	Operating profit/loss before depreciation, amortisation and impairment losses (EBITDA)	**38.6**	**43.7**	**-6.7**	**-4.0**
7	Depreciation, amortisation and impairment losses	-19.2	-14.7	-6.4	-3.2
	Operating profit/loss (EBIT)	**19.4**	**29.0**	**-13.1**	**-7.2**
19	Impairment write-down and reversal of write-down regarding investments and receivables from subsidiaries	-	-	9.3	-147.8
8	Dividend from group enterprise	-	-	24.9	79.9
9	Finance income	-	0.1	0.2	3.7
9	Finance costs	-26.2	-17.7	-21.5	-11.3
	Profit/loss from continuing operations before tax	**-6.8**	**11.4**	**-0.2**	**-82.7**
10	Tax on profit/loss for the year	3.1	-6.1	4.2	5.6
	Profit/loss from continuing operations before tax	**-3.7**	**5.3**	**4.0**	**-77.1**
29	Profit/loss from discontinuing operations after tax	10.0	-177.2	14.9	-33.4
	Profit/loss for the year	**6.3**	**-171.9**	**18.9**	**-110.5**
11	Basic earnings per share (EPS)	2.0	-53.6		
11	Diluted earnings per share (EPS-D)	2.0	-53.6		
	Profit/loss from continuing operations per share (EPS)	-1.2	1.6		
	Diluted profit/loss from continuing operations per share (EPS)	-1.2	1.6		

	PARENT COMPANY 2016	PARENT COMPANY 2015
Proposed profit appropriation:		
Dividends DKK 0 per share (2015: DKK 0 per share)	-	-
Retained earnings	18.9	-110.5
Total	**18.9**	**-110.5**

STATEMENT OF COMPREHENSIVE INCOME

DKK million Notes		CONSOLIDATED 2016	2015	PARENT COMPANY 2016	2015
	Profit/loss for the year	**6.3**	**-171.9**	**18.9**	**-110.5**
	Other comprehensive income				
	Items that can be reclassified to the income statement:				
	Foreign exchange translation adjustments of foreign subsidiaries	-0.2	0.2	-	-
	Value adjustments of hedging instruments:				
	Value adjustments for the year	3.1	5.0	3.1	5.0
	Value adjustment transferred to cost of sales	-0.7	-0.6	-	-
	Value adjustment transferred to finance costs	-2.8	-2.9	-2.8	-2.9
	Interest rate swap *	9.6	-	9.6	-
10	Tax on other comprehensive income	-2.2	-0.3	-2.3	-0.7
	Other comprehensive income after tax	**6.8**	**1.4**	**7.6**	**1.4**
	Total comprehensive income	**13.1**	**-170.5**	**26.5**	**-109.1**

Appropriation:		
Shareholders of Scandinavian Brake Systems A/S	26.5	-109.1
	26.5	**-109.1**

* It has been assessed that part of the interest rate swap relates to excess hedging, and therefore this part has been reclassified from other comprehensive income to the income statement as finance income and finance costs.

The Company does not have any items that cannot be reclassified to the income statement.

STATEMENT OF FINANCIAL POSITION – ASSETS

DKK million Notes		CONSOLIDATED 31.12.2016	31.12.2015	PARENT COMPANY 31.12.2016	31.12.2015
	NON-CURRENT ASSETS				
12	**Intangible assets**				
	Goodwill	12.5	12.5	-	-
	Patents, rights and trademarks	1.5	1.5	-	-
	Development projects	9.2	6.4	-	-
	Software	3.9	4.4	3.0	2.4
		27.1	24.8	3.0	2.4
13	**Property, plant and equipment**				
	Land and buildings	56.3	66.9	26.6	35.8
	Plant and machinery	20.2	30.7	-	-
	Fixtures and fittings other plant and equipment	9.4	10.0	0.9	0.8
	Property, plant and equipment under construction	0.2	0.2	-	-
		86.1	107.8	27.5	36.6
	Other non-current assets				
14	Investments in subsidiaries	-	-	236.1	236.1
14	Securities	0.1	0.1	0.1	0.1
18	Deferred tax	46.9	31.5	1.0	-
		47.0	31.6	237.2	236.2
	Total non-current assets	**160.2**	**164.2**	**267.7**	**275.2**
	CURRENT ASSETS				
15	Inventories	149.8	179.8	-	-
16	Receivables	120.2	104.3	10.6	13.5
23	Corporation tax receivable	1,0	-	-	-
	Cash at bank and in hand	0.1	0.2	-	-
		271.1	284.3	10.6	13.5
29	Assets held for sale	9.9	14.7	9.9	14.7
	Total current assets	**281.0**	**299.0**	**20.5**	**28.2**
	TOTAL ASSETS	**441.2**	**463.2**	**288.2**	**303.4**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

DKK million		CONSOLIDATED		PARENT COMPANY	
Notes		31.12.2016	31.12.2015	31.12.2016	31.12.2015
	EQUITY				
17	Share capital	32.1	32.1	32.1	32.1
	Hedging reserve	-2.8	-9.7	-4.0	-11.6
	Translation reserve	1.5	1.7	-	-
	Revaluation reserve	10.6	10.6	10.1	10.1
	Retained earnings	-225.2	-231.5	-64.1	-83.0
	Total equity	**-183.8**	**-196.8**	**-25.9**	**-52.4**
	LIABILITIES				
	Non-current liabilities				
18	Deferred tax	-	-	-	11.3
19	Provisions for bad debts, subsidiaries	-	-	93.8	103.1
20	Provisions	11.5	11.6	-	-
21	Credit institutions, etc.	439.6	448.9	22.4	40.0
22	Trade and other payables	-	-	75.0	100.0
	Total non-current assets	**451.1**	**460.5**	**191.2**	**254.4**
	Current liabilities				
21	Credit institutions, etc.	23.1	28.5	3.2	4.5
22	Trade and other payables	141.3	155.8	113.4	89.7
20	Provisions	3.2	8.0	-	-
		167.6	192.3	116.6	94.2
29	Liabilities re. assets held for sale	6.3	7.2	6.3	7.2
	Total current liabilities	**173.9**	**199.5**	**122.9**	**101.4**
	Total liabilities	**625.0**	**660.0**	**314.1**	**355.8**
	TOTAL LIABILITIES	**441.2**	**463.2**	**288.2**	**303.4**

STATEMENT OF CHANGES IN EQUITY

DKK million

CONSOLIDATED

	Share capital	Reserve for hedging trans-action	Reserve for foreign-exchange rate adj.	Reserve for revalu-ation	Retained earnings	Total
Equity at 1.1.2015	**32.1**	**-10.9**	**1.5**	**10.6**	**-59.6**	**-26.3**
Total comprehensive income for 2015						
Profit for the year	-	-	-	-	-171.9	-171.9
Other comprehensive income						
Foreign exchange adjustments on translation of foreign subsidiaries	-	-	0.2	-	-	0.2
Value adjustments of hedging instruments:						
Value adjustment for the period	-	5.0	-	-	-	5.0
Value adjustments transferred to cost of sales	-	-0.6	-	-	-	-0.6
Value adjustments transferred to finance costs	-	-2.9	-	-	-	-2.9
Tax on other comprehensive income	-	-0.3	-	-	-	-0.3
Total other comprehensive income	**-**	**1.2**	**0.2**	**-**	**-**	**1.4**
Comprehensive income for the period	**-**	**1.2**	**0.2**	**-**	**-171.9**	**-170.5**
Equity at 31.12.2015	**32.1**	**-9.7**	**1.7**	**10.6**	**-231.5**	**-196.8**

STATEMENT OF CHANGES IN EQUITY

DKK million

CONSOLIDATED

	Share capital	Reserve for hedging trans-action	Reserve for foreign-exchange rate adj.	Reserve for revalu-ation	Retained earnings	Total
Equity at 1.1.2016	**32.1**	**-9.7**	**1.7**	**10.6**	**-231.5**	**-196.8**
Total comprehensive income for 2016						
Profit for the year	-	-	-	-	6.3	6.3
Other comprehensive income						
Foreign exchange adjustments on translation of foreign subsidiaries	-	-	-0.2	-	-	-0.2
Value adjustments of hedging instruments:						
Value adjustment for the period	-	3.1	-	-	-	3.1
Value adjustments transferred to cost of sales	-	-0.7	-	-	-	-0.7
Value adjustments transferred to finance costs	-	-2.8	-	-	-	- 2.8
Interest rate swap *	-	9.6	-	-	-	9.6
Tax on other comprehensive income	-	-2.2	-	-	-	-2.2
Total other comprehensive income	**-**	**7.0**	**-0.2**	**-**	**-**	**6.8**
Comprehensive income for the period	**-**	**7.0**	**-0.2**	**-**	**6.3**	**13.1**
Equity at 31.12.2016	**32.1**	**-2.8**	**1.5**	**10.6**	**-225.2**	**-183.8**

The share capital consists of 3,208,500 shares of DKK 10 each. All shares rank equally.

* Moreover, the Group has previously entered into a swap agreement in the nominal amount of EUR 7.1 million to hedge the floating interest on the Group's mortgage debt regarding the Danish properties. Fair value of the interest swap represented a negative DKK 14.9 million at 31 December 2016.

SBS divested the Notox activity in 2016, inclusive of the properties. Accordingly, the mortgage debt regarding the properties in Aakirkeby and in Svendborg was paid off. In addition, the Group has put its property in Holstebro up for sale, and consequently, the mortgage debt relating to this property is expectedly also being paid off soon.

Based on the above, it has been assessed that a part of the interest rate swap relates to excess hedging as the nominal value of the interest rate swap exceeds the nominal value of the remaining mortgage debt. The proportionate share of fair value of the interest swap, which is no longer included in a hedge, totals DKK 9.6 million before tax (DKK 7.5 million after tax) and has been reclassified from other comprehensive income to the income statement as finance income and finance costs at 31 December 2016.

As to the remaining part of the interest rate swap, an analysis and an efficiency test have been made that show that the hedge is still in force until 31 December 2016. The remaining negative fair value of the interest rate swap of DKK 5.3 million before tax (DKK 4.2 million after tax) is thus still accounted for as hedging and recognised as other comprehensive income in a separate hedging reserve under equity until the hedged future cash flows affect the results of operations.

Hedging reserve
The hedging reserve comprises the cumulative net change in the fair value of hedging transactions that qualify for recognition as a cash flow hedge and where the hedged transaction has not been realised.

Currency translation reserve
The translation reserve comprises foreign currency differences arising upon the translation of financial statements of foreign enterprises from their functional currency to the presentation currency of the Scandinavian Brake Systems A/S Group (Danish kroner).

The reserve is dissolved and the foreign exchange adjustments are recognised in the income statement upon the sale of foreign enterprises.

Revaluation reserve
The revaluation reserve relates to the Group's properties in connection with the transition to IFRS at 1 January 2005 as the Group decided to apply IFRS 1 allowing for the revaluation at fair value of the opening statement of financial position.

STATEMENT OF CHANGES IN EQUITY

DKK million

PARENT COMPANY

	Share capital	Reserve for hedging trans-actions	Reserve for revalu-ations	Retained earnings	Total
Equity at 1.1.2015	**32.1**	**-13.0**	**10.1**	**27.5**	**56.7**
Total comprehensive income for 2016					
Profit/loss for the year	-	-	-	-110.5	-110.5
Other comprehensive income					
Value adjustments of hedging instruments:					
Value adjustment for the period	-	5.0	-	-	5.0
Value adjustments transferred to financial expenses	-	-2.9	-	-	-2.9
Tax on other comprehensive income	-	-0.7	-	-	-0.7
Total other comprehensive income	**-**	**1.4**	**-**	**-**	**1.4**
Comprehensive income for the period	**-**	**1.4**	**-**	**-110.5**	**-109.1**
Equity at 31.12.2015	**32.1**	**-11.6**	**10.1**	**-83.0**	**-52.4**

STATEMENT OF CHANGES IN EQUITY

DKK million

PARENT COMPANY

	Share capital	Reserve for hedging trans-actions	Reserve for revalu-ations	Retained earnings	Total
Equity at 1.1.2016	**32.1**	**-11.6**	**10.1**	**-83.0**	**-52.4**
Total comprehensive income for 2016					
Profit for the year	-	-	-	18.9	18.9
Other comprehensive income					
Value adjustments of hedging instruments:					
Value adjustment for the period	-	3.1	-	-	3.1
Value adjustments transferred to financial expenses	-	-2.8	-	-	-2.8
Interest swap *	-	9.6	-	-	9.6
Tax on other comprehensive income	-	-2.3	-	-	-2.3
Total other comprehensive income	**-**	**7.6**	**-**	**-**	**7.6**
Comprehensive income for the period	**-**	**7.6**	**-**	**18.9**	**26.5**
Equity at 31.12.2016	**32.1**	**-4.0**	**10.1**	**-64.1**	**-25.9**

The share capital consists of 3,208,500 shares of DKK 10 each. All shares rank equally.

* Moreover, the Group has previously entered into a swap agreement in the nominal amount of EUR 7.1 million to hedge the floating interest on the Group's mortgage debt regarding the Danish properties. Fair value of the interest swap represented a negative DKK 14.9 million at 31 December 2016.

SBS divested the Notox activity in 2016, inclusive of the properties. Accordingly, the mortgage debt regarding the properties in Aakirkeby and in Svendborg was paid off. In addition, the Group has put its property in Holstebro up for sale, and consequently, the mortgage debt relating to this property is expectedly also being paid off soon.

Based on the above, it has been assessed that a part of the interest rate swap relates to excess hedging as the nominal value of the interest rate swap exceeds the nominal value of the remaining mortgage debt. The proportionate share of fair value of the interest swap, which is no longer included in a hedge, totals DKK 9.6 million before tax (DKK 7.5 million after tax) and has been reclassified from other comprehensive income to the income statement as finance income and finance costs at 31 December 2016.

As to the remaining part of the interest rate swap, an analysis and an efficiency test have been made that show that the hedge is still in force until 31 December 2016. The remaining negative fair value of the interest rate swap of DKK 5.3 million before tax (DKK 4.2 million after tax) is thus still accounted for as hedging and recognised as other comprehensive income in a separate hedging reserve under equity until the hedged future cash flows affect the results of operations.

Hedging reserve
The hedging reserve comprises the cumulative net change in the fair value of hedging transactions that qualify for recognition as a cash flow hedge and where the hedged transaction has not been realised.

Revaluation reserve
The revaluation reserve relates to the Group's properties in connection with the transition to IFRS at 1 January 2005 as the Group decided to apply IFRS 1 allowing for the revaluation at fair value of the opening statement of financial position.

CASH FLOW STATEMENT

DKK million		CONSOLIDATED		PARENT COMPANY	
Notes		2016	2015	2016	2015
	Profit/loss from continuing operations before tax	-6.8	11.4	-0.2	-82.7
	Depreciation, amortisation and impairment losses	19.2	14.7	6.4	3.2
1	Adjustments	22.5	15.2	10.7	155.7
2	Changes in working capital	-6.3	6.4	26.6	12.1
	Cash generated from operations (operating activities)	28.6	47.7	43.5	88.3
	Finance income received	-	-	-	3,7
	Finance costs paid	-16.2	-15.9	-11.9	-11.2
	Corporation tax paid during the financial year (net)	-4.5	-2.7	-	-
	Cash flow from operating activities	**7.9**	**29.1**	**31.6**	**80.8**
	Acquisition of intangible assets	-5.8	-6.2	-1.2	-1.4
	Acquisition of property, plant and equipment	-9.9	-11.5	-0.6	-0.6
	Sale of property, plant and equipment	0.6	3.3	-	-
	Cash flow from investing activities	**-15.1**	**-14.4**	**-1.8**	**-2.0**
	Raising and repayment of non-current payables	21.3	9.4	-4.0	-3.8
	Raising and repayment of intra-group debt	-	-	-25.0	-75.0
	Cash flow from financing activities	**21.3**	**9.4**	**-29.0**	**-78.8**
	Cash flow from discontinuing operations	-14.2	-24.0	-0.8	-
	Cash flows for the year	**-0.1**	**0.1**	**-**	**-**
	Liquid funds at the beginning of the period	0.2	0.1	-	-
	Liquid funds at the end of the period	**0.1**	**0.2**	**-**	**-**
1	**Adjustments**				
	Finance income	-	-0.1	-0.2	-3.7
	Finance costs	26.2	17.7	21.5	11.3
	Write-down on investments in and amounts owed by subsidiaries	-	-	-9.3	147.8
	Other adjustments	-3.7	-2.4	-1.3	0.3
		22.5	**15.2**	**10.7**	**155.7**
2	**Changes in working capital**				
	Changes in receivables, etc.	-16.9	30.9	2.9	-141.9
	Intra-group remission of debt and Group contribution	-	-	-	110.4
	Changes in inventories	30.0	-7.1	-	-
	Change in trade payables and other liabilities	-19.4	-17.4	23.7	43.6
		-6.3	**6.4**	**26.6**	**12.1**

The cash flow statement cannot be derived directly from the consolidated financial statements and the parent company financial statements.

NOTES

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NOTE 1 ACCOUNTING POLICIES

Scandinavian Brake Systems A/S is a private limited company domiciled in Denmark. The financial statements section of the annual report for the period 1 January – 31 December 2016 comprises both the consolidated financial statements of Scandinavian Brake Systems A/S and its subsidiaries (the Group) and the separate parent company financial statements.

The consolidated financial statements and the parent company financial statements of Scandinavian Brake Systems A/S for 2016 have been prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

The annual report also fulfils the requirements laid down in the International Financial Reporting Standards issued by IASB.

On 27 March 2017, the Board of Directors and the Executive Board have discussed and approved the annual report of Scandinavian Brake Systems A/S for 2016. The annual report will be presented to the shareholders of Scandinavian Brake Systems A/S for approval at the annual general meeting on 27 April 2017.

Basis of preparation
The consolidated financial statements and the parent company financial statements have been presented in Danish kroner, rounded to the nearest DKK million.

The accounting policies described below were applied consistently in the financial year and in respect of the comparative figures. For standards implemented prospectively, comparative figures are not restated.

Following the divestment in September 2016, the Notox activity was accounted for as a discontinuing operation in 2016, and consequently, the comparative figures in the income statement and the cash flow statement were restated in accordance with IFRS. The comparative figures for items of the statement of financial position are unchanged. Financial highlights for 2012-2014 have not been restated.

Going concern statement
In connection with the financial reporting, the Board of Directors, the Audit Committee and the Executive Board assessed whether presentation of the annual report under the going concern assumption is well-founded. The Board of Directors, the Audit Committee and the Executive Board have concluded that no such factors exist at the balance sheet date as could raise doubt about the Group's and the Parent Company's ability to continue as a going concern at least until the next balance sheet date. The conclusion drawn is based on knowledge of the Group and the Parent Company, the estimated outlook and the uncertainties and risks identified in this respect (described in the Management's review and note 2) as well as an examination of budgets, including the expected developments in liquidity, capital base, etc., existing credit facilities, including contractual and expected maturity periods, as well as other terms. Thus, it is deemed appropriate, reasonable and well-founded to base the financial reporting on the going concern assumption.

Changes in accounting policies
Scandinavian Brake Systems A/S has implemented the new and amended standards and interpretations (IFRICs) in force for 2016.

As none of the new standards and interpretations impacted recognition and measurement in 2016, they did not impact the profit/loss for the year or diluted earnings per share either.

Consolidated financial statements
The consolidated financial statements comprise the Parent Company, Scandinavian Brake Systems A/S, and subsidiaries over which Scandinavian Brake Systems A/S exercises control.

The Group controls another entity if the Group is exposed to or is entitled to variable returns due to its interest in the entity and can impact these returns through its controlling interest in the entity.

When assessing whether Scandinavian Brake Systems A/S exercises control, potential voting rights that are real and of substance at the end of the reporting period are taken into account.

The Management commentary includes a group chart.

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 losses are eliminated in the same way as unrealised gains to the extent that impairment has not taken place.

Business combinations
Entities acquired or formed during the year are recognised in the consolidated financial statements from the date of acquisition or formation. Entities sold or otherwise disposed of are recognised up to the date of disposal. Comparative figures are not restated to reflect newly acquired entities. Discontinued operations and assets held for sale are presented separately.

For acquisitions of new businesses over which Scandinavian Brake Systems A/S obtains control, the purchase method is used. The acquired businesses' identifiable assets, liabilities and contingent liabilities are measured at fair value at the acquisition date. Identifiable intangible assets are recognised if they are separable or arise from a contractual right. Deferred tax related to the revaluations is recognised. The difference between the consideration and the fair value of the identified net assets is recognised as goodwill under intangible assets.

In the 2016 and 2015 financial years, no business acquisitions were made in the Group.

The acquisition date is the date when Scandinavian Brake Systems A/S effectively obtains control of the acquired business.

Any excess of the consideration transferred, the value of non-controlling equity interests in the acquired enterprise and the fair value of any previously held equity interests

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

over the fair value of the identifiable assets, liabilities and contingent liabilities acquired (goodwill) is recognised as goodwill under intangible assets. Goodwill is not amortised, but is tested annually for evidence of impairment. The first impairment test is performed before the end of the year of acquisition.

Upon acquisition, goodwill is allocated to the cash-generating units, which subsequently form the basis for impairment testing. Goodwill and fair value adjustments in connection with the acquisition of a foreign entity with a functional currency different from the presentation currency used in the Scandinavian Brake Systems A/S Group's financial statements are treated as assets and liabilities belonging to the foreign entity and upon initial recognition translated into the foreign entity's functional currency at the exchange rate at the transaction date.

The consideration transferred by a business consists of the fair value of the agreed consideration in the form of assets transferred, liabilities assumed and equity instruments issued. If part of the consideration is contingent on future events or compliance with agreed conditions, this part of the consideration is recognised at fair value at the date of acquisition.

Costs attributable to business combinations are recognised directly in profit or loss when incurred.

If uncertainties regarding identification or measurement of acquired assets, liabilities or contingent liabilities or determination of the consideration exist at the acquisition date, initial recognition will take place on the basis of provisional values. If it turns out subsequently that the identification or measurement of the purchase consideration, acquired assets, liabilities or contingent liabilities was incorrect on initial recognition, the statement will be adjusted retrospectively, including goodwill, until 12 months after the acquisition, and comparative figures will be restated. After that, goodwill will not be adjusted. Changes in estimates of contingent purchase considerations are recognised in profit or loss for the year.

Gains or losses on disposal of subsidiaries are stated as the difference between the sales amount and the carrying amount of net assets including goodwill at the date of disposal and costs of disposal.

Foreign currency translation

For each of the reporting entities in the Group, a functional currency is determined. The functional currency is the currency used in the primary financial environment in which the reporting entity operates. Transactions denominated in other currencies than the functional currency are foreign currency transactions.

On initial recognition, foreign currency transactions are translated to the functional currency 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 finance income or finance costs.

Receivables and payables and other monetary items denominated in foreign currencies are translated to the functional currency at the exchange rates at the date of the statement of financial position. The difference between the exchange rates at the date of the statement of financial position and at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as finance income or finance costs.

In the consolidated financial statements, the statements of comprehensive income of foreign operations with a functional currency different from DKK are translated at the exchange rates at the transaction date, and the statement of financial position items are translated at the exchange rates at the end of the reporting period. An average exchange rate for each month is used as the transaction date exchange rate to the extent that this does not significantly distort the presentation of the underlying transactions.

Foreign exchange differences arising on translation of the opening equity of such entities at closing rates and on translation of the statements of comprehensive income from the exchange rate at the transaction date to closing rates are recognised in other comprehensive income in a separate translation reserve under equity. The exchange rate adjustment is allocated between the Parent Company's and the non-controlling interests' share of equity.

Foreign exchange adjustments which are considered part of the total net investment in foreign operations with another functional currency than DKK are recognised in the consolidated financial statements in other comprehensive income under a separate translation reserve in equity.

On full or partial disposal of wholly-owned foreign entities resulting in a loss of control, the foreign currency translation adjustments which have been recognised in other comprehensive income and which are attributable to the foreign entity are reclassified from other comprehensive income to profit/loss for the year together with any gains or losses resulting from the disposal.

Repayment of balances which constitute part of the net investment is not considered a partial disposal of the subsidiary.

Derivative financial instruments

Derivative financial instruments are recognised at the date a derivative contract is entered into and measured in the statement of financial position at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables in the statement of financial position, respectively, and set-off of positive and negative values is only made when the Company has the right and the intention to settle several financial instruments net.

Fair value hedge

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of recognised assets and liabilities are recognised in the income statement together with changes in the value of the hedged asset or liability as far as the hedged portion is concerned. Hedging of future cash flows according to agreement (firm commitment), except for foreign currency hedges, is treated as a fair value hedge.

The portion of the value adjustment of a derivative financial instrument that is not included in a hedge is presented under financial items.

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

Cash flow hedge
Changes in the portion of the fair value of derivative financial instruments designated as and qualifying as a cash flow hedge that is an effective hedge of changes in future cash flows are recognised in other comprehensive income under a separate hedging reserve in equity until the hedged cash flows affect profit or loss. If the hedged transaction results in gains or losses, amounts previously recognised in other comprehensive income are reclassified to the same item as the hedged item.

If the hedging instrument does no longer qualify for hedge accounting, the hedge will cease to be effective. The accumulated change in value recognised in other comprehensive income is reclassified to profit or loss when the hedged cash flows affect profit or loss or are no longer probable.

The portion of the value adjustment of a derivative financial instrument that is not included in a hedge is presented under financial items.

Other derivative financial instruments
For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in profit or loss as finance income or finance costs.

Certain contracts contain characteristics of derivative financial instruments. Such embedded derivatives are recognised separately and measured at fair value if they differ significantly from the host contract, unless the entire host contract is recognised and measured at fair value on a regular basis.

INCOME STATEMENT

Revenue
Revenue from the sale of goods for resale and finished goods is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place before year end and that the income can be reliably measured and is expected to be received. Revenue is measured at fair value ex VAT, taxes and discounts in relation to the sale. All discounts granted are recognised in revenue.

Other operating income and expenses
Other operating income and expenses comprises items secondary to the primary activities of the Company, including public grants.

Special items
Special items comprise significant amounts which are not attributable to the usual operations, including costs for reorganisation, close-down of activities, etc. as well as major gains and losses upon the transfer of subsidiaries and operations which are not classified as discontinued operations.

Dividends from subsidiaries
Dividends from subsidiaries are recognised as income in the parent company income statement in the financial year when the dividends are declared. Impairment tests are performed if dividend distributions exceed the subsidiary's profit for the period.

Finance income and finance costs
Finance income and finance costs comprise interest income and expense and foreign exchange gains and losses on transactions denominated in foreign currencies. Furthermore, amortisation of financial assets and liabilities, including finance leases, as well as surcharges and refunds under the on-account tax scheme and changes in the fair value of derivative financial instruments which are not designated as hedging instruments are included.

Tax for the year
Scandinavian Brake Systems A/S is jointly taxed with all Danish and foreign companies in the Knudseje Holding ApS Group, under the Danish rules on compulsory joint taxation of the Knudseje Holding ApS Group's Danish companies as well as voluntary adoption of international joint taxation. The companies are included in the joint taxation from the date when they are included in the consolidated financial statements and up to the date when they are excluded from the consolidation.

The current Danish corporation tax is allocated between the jointly taxed companies in proportion to their taxable income. Companies that use tax losses in other companies pay the joint tax contribution to the administrative company at an amount corresponding to the tax value of the tax losses used. Companies whose tax losses are used by other companies receive joint tax contributions from the administrative company corresponding to the tax value of the losses used (full absorption). The jointly taxed companies are taxed under the on-account tax scheme.

Tax for the year comprising current tax for the year and changes in deferred tax, including changes due to changes in the tax rate, is recognised in profit/loss for the year, other comprehensive income or directly in equity.

ASSETS

Intangible assets

Goodwill
Goodwill is initially recognised in the statement of financial position at cost as described under "Business combinations". Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is not amortised.

The carrying amount of goodwill is allocated to the Group's cash-generating units at the date of acquisition. Identification of cash-generating units is based on the management structure and internal financial control.

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

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

Recognised development costs are measured at cost less accumulated amortisation and impairment losses. Cost comprises wages and salaries, amortisation and other costs attributable to the Group's development activities as well as borrowing costs relating to specific and general borrowing directly attributable to the development of development projects.

Following the completion of the development work, development costs are amortised on a straight-line basis over the estimated useful life from the date when the asset is available for use. The amortisation period is usually five to ten years. The basis of amortisation is calculated less any impairment.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents and licences are amortised on a straight-line basis over the lower of the remaining patent or contract period and useful life. The amortisation period is usually five to ten years.

Other intangible assets
Software and other intangible assets are measured at cost less accumulated amortisation and impairment losses. Software and other intangible assets are amortised on a straight-line basis over the expected useful life of 3-8 years.

However, intangible assets with an indefinite useful life are not amortised but are tested for impairment annually.

Property, plant and equipment
Land and buildings, plant and 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 when 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 as well as borrowing costs relating to specific and general borrowing directly attributable to the construction of the individual asset.

The cost of assets held under finance leases is recognised at the lower of fair value of the assets and the present value of the future minimum lease payments. For the calculation of the net present value, the interest rate implicit in the lease or the Group's incremental borrowing rate is used as discount rate.

Subsequent costs, e.g. in connection with replacement of components of property, plant and equipment, are recognised in the carrying amount of the asset if it is probable that the costs will result in future economic benefits for the Group. The replaced components are derecognised in the statement of financial position and recognised as an expense in profit or loss. All other costs incurred for ordinary repairs and maintenance are recognised in profit or loss as incurred.

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 lives are as follows:

Buildings and construction parts	10-50 years
Plant and machinery	3-15 years
Fixtures and fittings, other plant and equipment	3-10 years

Land is not depreciated.

Depreciation is calculated on the basis of the residual value and impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued.

When changing the depreciation period or the residual value, the effect on the depreciation is recognised prospectively as a change in accounting estimates.

Investments in subsidiaries in the parent company financial statements
Investments in subsidiaries are measured at cost in the parent company financial statements. Where the recoverable amount is lower than cost, investments are written down to this lower value.

Subsidiaries with a negative net asset value are measured at DKK 0. If Scandinavian Brake Systems A/S has a legal or a constructive obligation to cover any negative balances of subsidiaries, such obligation is recognised as liabilities. Any receivables from subsidiaries are written down if the amount owed is deemed irrecoverable.

Other securities
Other securities are measured at fair value, and changes in fair values are recognised in other comprehensive income on a regular basis.

Impairment testing of non-current assets
Goodwill and intangible assets with indefinite useful lives are tested for impairment annually, initially before the end of the year of acquisition. Similarly, in-process development projects are subject to an annual impairment test.

The carrying amount of goodwill is tested for impairment together with the other non-current assets of the cash-generating unit or group of cash-generating units to which goodwill is allocated. The assets of the cash-generating units are written down to the recoverable amount through the income statement if the carrying amount is higher. The recoverable amount of a cash-generating unit is generally determined as the present value of the expected future net cash flows from the entity or activity (cash-generating unit) to which the goodwill relates.

Deferred tax assets are subject to annual impairment tests and are recognised only to the extent that it is probable that the assets will be utilised.

The carrying amount of other non-current assets is subject to an annual impairment test. When there is an indication that assets may be impaired, the recoverable amount of the asset is determined. The recoverable amount is the higher of an asset's fair value less expected costs to sell and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or the cash-generating unit to which the asset belongs.

An impairment loss is recognised if the carrying amount of

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

an asset or a cash-generating unit, respectively, exceeds the recoverable amount of the asset or the cash-generating unit. However, impairment losses on goodwill are recognised in a separate line item in the income statement.

Impairment losses in respect of goodwill are not reversed. Impairment losses recognised in respect of other assets are reversed in so far as the assumptions and estimates underlying the impairment losses have changed. Impairment is only reversed to the extent that the asset's increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

Inventories
Inventories are measured at the lower of cost in accordance with the FIFO method and the net realisable 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 directly attributable to the production of the individual inventory. Indirect production overheads comprise indirect materials and wages and salaries as well as maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management.

The net realisable value of inventories is determined as the selling price less costs of completion and costs incurred to effect the sale, taking into account marketability, obsolescence and developments in the expected selling price.

Receivables
Receivables are measured at amortised cost. Provisions are made for bad debts where there is objective evidence that a receivable is impaired. Write-down is made on an individual basis. Write-downs are calculated as the difference between the carrying amount and the present value of expected cash flows, including the realisable value of any collateral received.

EQUITY

Dividend
Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting. Dividend expected to be distributed for the financial year is presented as a separate line item under "Equity".

Hedging reserve
The hedging reserve comprises the cumulative net change in the fair value of hedging transactions that qualify for recognition as a cash flow hedge and where the hedged transaction has not been realised.

Currency translation reserve
The translation reserve comprises foreign currency differences arising upon the translation of financial statements of foreign enterprises from their functional currency to the presentation currency of the Scandinavian Brake Systems A/S Group (Danish kroner).

The reserve is dissolved and the foreign exchange adjustments are recognised in the income statement upon the sale of foreign enterprises.

Revaluation reserve
The reserve relates to the revaluation of the Group's properties in connection with the transition to IFRS at 1 January 2005 as the Group decided to make use of the possibility of a revaluation to fair value in the opening statement of financial position in accordance with IFRS 1.

OBLIGATIONS

Pension obligations
The Group has entered into pension schemes and similar arrangements with the majority of the Group's employees. Contributions to defined contribution plans where the Group pays fixed pension payments to independent pension funds are recognised in the income statement in the period to which they relate, and any contributions outstanding are recognised in the statement of financial position as other payables.

Current and deferred tax
Current tax payable and receivable is recognised in the statement of financial position 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 taxation contributions payable and receivable are recognised in the statement of financial position under 'Balances with group entities'.

Deferred tax is measured using the statement of financial position 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 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 Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value 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 assets are subject to annual impairment tests and are recognised only to the extent that it is probable that the assets will be utilised.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax liabilities and tax assets or intends either to settle current tax liabilities and tax assets on a net basis or to realise the assets and settle the liabilities simultaneously.

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

Adjustment is made to deferred tax resulting from elimination of unrealised intra-group profits and losses.

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. The change in deferred tax as a result of changes in tax rates is recognised in the comprehensive income for the year.

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 will be an outflow of resources embodying economic benefits to settle the obligation.

The amount recognised as a provision is Management's best estimate of the expenses required to settle the obligation.

On measurement of provisions, the costs required to settle the liability are discounted if the effect is material to the measurement of the liability. A pre-tax discount factor is used that reflects the current market interest rate level plus risks specific to the liability. Changes to the discount factor during the year are recognised as finance costs.

Financial liabilities
Amounts owed to mortgage credit institutions, etc., are recognised at the date of borrowing at fair value less transaction costs paid. On subsequent recognition, the financial liabilities are measured at amortised cost using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement under financial expenses over the term of the loan.

Recognised in financial liabilities is also the capitalised residual lease liability under finance leases, which is measured at amortised cost.

Other financial liabilities are measured at amortised cost.

Leases
For accounting purposes lease obligations are divided into finance and operating leases.

Leases are classified as finance leases if they transfer substantially all the risks and rewards incidental to ownership to the lessee. All other leases are classified as operating leases.

The accounting treatment of assets held under finance leases and lease liabilities is described under property, plant and equipment and financial liabilities, respectively.

Operating lease payments are recognised in the statement of income on a regular basis over the lease term.

Deferred income
Deferred income is measured at cost.

Assets classified as held for sale
Assets held for sale comprises non-current assets and disposal groups held for sale. Disposal groups are defined as a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction. Liabilities associated with assets held for sale are those liabilities directly associated with the assets that will be transferred in the transaction. Assets are classified as held for sale if the carrying amount will be recovered principally through a sale within 12 months in accordance with a formal plan rather than through continuing use.

Assets or disposal groups held for sale are measured at the lower of carrying amount at the date of the reclassification as "held for sale" or fair value less costs to sell. Assets are not depreciated or amortised from the date when they are reclassified as held for sale.

Impairment losses on the initial classification as "held for sale" and gains and losses on subsequent remeasurement at the lower of the carrying amount and fair value less costs to sell are recognised in the income statement in the items to which they relate. Gains and losses are disclosed in the notes.

Assets and associated liabilities are presented as separate line items in the statement of financial position, and the main items are specified in the notes. Comparative figures are not restated.

Presentation of discontinued operations
Discontinued operations comprise a separate major line of business whose activities and cash flows can be clearly distinguished, operationally and for financial reporting purposes, from the other business areas and where the unit either has been disposed of or is held for sale and where the sale is expected to be carried out within twelve months in accordance with a formal plan. Discontinued operations also include businesses which are classified as "held for sale" in connection with the acquisition.

The profit/loss from discontinued operations and value adjustments after tax of related assets and liabilities and gains and losses on disposal are presented as a separate line item in the income statement, and comparative figures are restated accordingly. Revenue, expenses, value adjustments and tax relating to discontinued operations are disclosed in the notes. Assets and liabilities for discontinued operations are presented in separate lines in the statement of financial position without restatement of comparative figures, see the section "Assets classified as held for sale", and the major classes of assets and liabilities are disclosed in the notes.

Cash flows from operating, investing and financing activities of the discontinued operations are disclosed in a note.

CASH FLOW STATEMENT

The cash flow statement shows the cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as cash and cash equivalents at the beginning and end of the year.

The cash flow effect of acquisitions and disposals of entities is shown separately in cash flows from investing activities. Cash flows from acquisitions of enterprises are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of enterprises are recognised up until the date of disposal.

Cash flows from operating activities are calculated according

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

to the indirect method as profit/loss before tax adjusted for non-cash operating items, changes in working capital, interest, payments, dividends and income taxes paid.
Cash flows from investing activities comprise payments in connection with acquisitions and disposals of businesses and of intangible assets, property, plant and equipment and other non-current assets as well as acquisition and disposal of securities not classified as cash and cash equivalents. Acquisitions of assets by means of finance leases are treated as non-cash transactions.

Cash flows from financing activities comprise changes in the size and composition of the share capital and associated expenses as well as borrowings, repayment of interest-bearing debt, purchase and sale of treasury shares and distribution of dividends to shareholders. Cash flows from assets held under finance leases are recognised as payment of interest and repayment of debt.

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less at the acquisition date which are subject to an insignificant risk of changes in value.

Cash flows in other currencies than the functional currency are translated using average exchange rates unless these deviate significantly from the rate at the transaction date.

Segment information
Segment information is provided in accordance with the accounting policies applied by the Group and follows the internal management reporting.

Segment income and expenses as well as segment assets and liabilities comprise items which are directly attributable to the individual segment and the items which can be allocated to the individual segment on a reliable basis. Unallocated items primarily comprise assets and liabilities and income and costs related to the Group's administrative functions, investment activities, income taxes, etc.

Non-current segment assets comprise non-current assets used directly in the operating activities of the segment, including intangible assets, property, plant and equipment, and investments in joint ventures and associates. Current segment assets comprise current assets used directly in the operating activities of the segment, including inventories, trade receivables, other receivables, prepayments and cash.

Segment liabilities comprise liabilities resulting from the operating activities of the segment, including trade payables and other payables.

Alternative financial highlights
SBS presents financial highlights in the annual report, which are not defined in accordance with IFRS. SBS assesses that these financial highlights, which are not defined in accordance with IFRS provide valuable information to investors and group management for assessing the results of operations. As other companies may calculate the financial highlights differently than SBS, the financial highlights may not be comparable with the ones that other companies apply. These financial highlights should therefore not be considered a substitute for the performance indicators as defined by IFRS.

Key figures
SBS applies the performance indicator "EBITDA recurring" which is defined as EBITDA less special items, which are defined as significant amounts which are not attributable to the usual operations, including costs for reorganisation, gains and losses on the sale of properties, close-down of activities, etc. as well as major gains and losses upon the transfer of subsidiaries and assets which are not classified as discontinuing/discontinued operations.

Financial ratios

Equity ratio =	Equity at the end of the year
	Statement of financial position total at the end of the year
EPS Basic =	Profit or loss
	Average number of shares
CFPS =	Cash flows from operating activities
	Average number of shares
BVPS =	Equity
	Number of shares, end of year
EBITDA-recurring margin =	Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring)
	Revenue
EBITDA-margin =	Operating profit before depreciation and amortisation (EBITDA)
	Revenue
EBIT-margin =	Operating profit/loss (EBIT)
	Revenue
ROIC excl. GW =	* EBITA excl. goodwill amortisation
	Average invested capital excl. goodwill
ROE =	Profit or loss
	Average equity
Share price/ book value	Børskurs ultimo året
	BVPS

Earnings per share (EPS) and diluted earnings per share (EPS-D) are calculated in accordance with IAS 33.

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

*EBITDA = Earnings before interest, taxes, depreciation and amortisation.

Average invested capital = Net working capital and intangible assets and property, plant and equipment.

DKK million

NOTE 2 ACCOUNTING ESTIMATES AND JUDGEMENTS

The calculation of the carrying amount of certain assets and liabilities requires assessments, estimates and assumptions concerning future events.

The estimates and assumptions made are among other things based on historical experience and other factors that Management finds reasonable in the circumstances but which are inherently uncertain and unpredictable. The assumptions may be incomplete or inaccurate, and unexpected events or circumstances may arise. The Group is subject to risks and uncertainties which may mean that the actual outcome may differ from the estimates made. Special risks for the Group are mentioned in the Management commentary under "Risk management" on pages 14-15 to the consolidated financial statements and the parent company financial statements.

It may be necessary to change previously made estimates due to changes in the facts on which these estimates were based or due to new knowledge or subsequent events.

Estimates particularly material to the financial reporting are made, e.g., based on cash resources and financing and by way of an assessment of the recoverability of deferred tax assets and impairment write-down in respect of inventories and receivables, etc. Estimates and assessments made reflect Management's best estimate and assessment at the date of the statement of financial position.

Capital resources
The capital base is negatively affected by the impairment of goodwill and fixed assets etc. regarding the Notox activity in 2009 and 2015. In March 2016, SBS decided to close down the Notox division aiming at a sale of the activities in whole or in part. Later in 2016, SBS entered into an agreement on the sale of all assets regarding the Notox division by which the SBS Group realised an accounting profit of DKK 9.2 million before tax. Consequently, Notox A/S changed its name to DPF Svendborg A/S.

The Group's and the Parent Company's equity totals a negative DKK 183.8 million and a negative DKK 25.9 million, respectively at 31 December 2016.

The Parent Company thus falls under the provision of Danish company legislation regarding capital losses. According to the provisions of the Act, the Board of Directors will address the capital loss identified at the general meeting on 27 April 2017. The Board of Directors considers the financial position adequately described in this annual report.

Management expects that the Group's and the Parent Company's operations and earnings, given the Group's strategy plan until the end of 2019, will contribute to a gradual strengthening of the capital base. Thus, Management believes that the Parent Company has re-established the share capital via dividends from subsidiaries within the Group's present strategy period, which expires at the end of 2019.

Liquidity and financing
In December 2016, the Group prolonged its credit agreement with the banking institutions, and the Group's expected financing requirements are thus covered up to 30 April 2018.

Based on the Group's focus on its core business in the divisions, SBS Automotive and SBS Friction and subsequent to the divestment of the Notox activity, group management prepared a new business plan for 2017-2019 at the end of 2017 inclusive of budget for 2017 and forecasts for 2018 and 2019, which were subsequently presented to the Group's banking institutions. Together with the Group's banking institutions, Management has subsequently prepared a new long-term credit agreement.

Based on the business plan for 2017-2019, a new credit agreement was thus closed in March 2017 with the Group's banking institutions. The new credit agreement runs for three years until 1 April 2010 after which it is subject to renegotiation. In the opinion of Group management, this agreement provides the Group and the parent company with the required financial base to continue its activities and operations in the coming three years.

The new credit agreement with the Group's banking institutions is subject to financial as well as non-financial terms and conditions (covenants). The financial covenants are tied up on the Group's development in operations, balance sheet and cash flow and the business plan for the term of the agreement up to 1 April 2020. The performance thereof is material to the compliance with the credit agreement. Moreover, it has been agreed that no dividends are distributed for the three years during which the credit agreement is in force.

The Parent Company's cash resources are highly dependent on the cash resources of the other group companies. The Danish companies have issued mutual guaranties to the Group's bankers. The Parent Company has provided guarantee for bank debt in DPF, Svendborg A/S, just as a comfort letter has been issued to the subsidiary. Based thereon, a provision for bad debts has been made in the parent company financial statements for 2016 regarding DPF Svendborg A/S in the amount of DKK 93.8 million at 31 December 2016.

Based on the group budget for 2017, group management assesses that there is sufficient room for manoeuvre within the agreed terms and covenants, etc. and consequently, the Group and the Parent Company have adequate liquidity to carry through the activities and operations according to the group budget for 2017.

Based on the business plan for 2017-2019, group management furthermore assesses that the Group and the Parent Company have adequate liquidity to carry through the planned activities and operations until 1 April 2020 considering the credit facilities laid down in the new credit agreement.

Consolidated liquidity at 31 December 2016 is specified as follows:

DKK million	2016	2015
Cash	0.1	0.2
Undrawn credit facilities	26.8	21.6
Capital resources at 31 December	**26.9**	**21.8**

Undrawn credit facilities comprise drawing facilities with the Group's banking institutions (bank line).

NOTE 2 ACCOUNTING ESTIMATES AND JUDGEMENTS – (CONTINUED)

Recoverability of deferred tax assets
The Group's and the Parent Company's deferred tax assets are recognised for all non-utilised tax losses in so far as it is deemed probable that tax profits are realised within a foreseeable future against which the tax losses can be offset.

The amount to be recognised as deferred tax asset is determined by estimating the date at which future taxable profits are likely to be generated and based on the size thereof.

The statement of financial position includes deferred tax assets in the amount of DKK 46.9 million at 31 December 2016 (2015: DKK 31.5 million) which are specified as follows:

DKK million	
Temporary differences between the carrying amount and the tax base of assets	33.3
Temporary differences between the carrying amount and the tax base of provisions and liabilities	4.5
Tax losses allowed for carryforward	61.6
Deferred tax assets (before write-down)	**99.4**
Non-capitalised deferred tax assets (primarily deferred tax assets allowed for carryforward)	-52.5
Deferred tax assets at 31 December 2016	**46.9**

At the presentation of the consolidated financial statements for 2015, all items of operating equipment regarding the Notox activity (now DFP Svendborg A/S) were written down based on independent external assessments. Moreover, the deferred tax asset was written off based on the assumption that the divestment of the Notox activities would be effected as a sale of shares, which would imply that the tax losses allowed for carryforward would lapse.

The divestment of Notox in September 2016 was however made by means of a sale of activities and assets which implied that the tax losses allowed for carryforward regarding the Notox activity were maintained and in future can be utlised by the companies in the joint taxation unit.

Based on the business plan for 2017-2019, group management has reassessed the Group's deferred tax assets at 31 December 2016.

According to group management, the utilisation of the deferred tax asset of DKK 37.8 million at 31 December 2016 regarding the temporary difference between the carrying amount and the tax base of assets primarily in SBS Automotive A/S and SBS Friction A/S is deemed likely within a foreseeable future. Accordingly, the deferred tax asset regarding the balances was recognised in full at 31 December 2016.

As to the deferred tax asset regarding tax losses allowed for carryforward, group management has assessed that a deferred tax asset of DKK 9.1 million can be recognised at 31 December 2016 based on the tax profits expected in the joint taxation unit within the coming 1-2 years.

The Group's deferred tax asset which relates to SBS France Srl has also be reassessed which implied an impairment loss of DKK 7.9 million. Accordingly, the deferred tax asset totalled DKK 2.0 million at 31 December 2016.

The Group's unrecognised tax assets then totalled DKK 52.5 million at 31 December 2016 compared to DKK 61.2 million at 31 December 2015.

Inventories
The estimation uncertainty regarding inventories primarily relates to write-downs to net realisable value and to the recognition of production costs included. The need for impairment write-down increases as the time during which the individual item is in stock increases as old inventory items are deemed to be subject to some level of obsolescence and to be characterised as slow-moving items. Inventories are written down based on the mathematical model for inventory write-downs where cost exceeds net realisable value. At 31 December 2016, inventory write-downs totalled DKK 6.1 million against DKK 9.1 million at 31 December 2015.

DKK million

NOTE 3 SEGMENT INFORMATION

Activities

CONSOLIDATED	SBS Automotive		SBS Friction		Other segments incl. eliminations *		Reportable SBS segments Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Revenue, external customers	647.2	649.5	122.5	116.7	-	-	**769.7**	**766.2**
EBITDA recurring	32.5	40.5	21.7	18.1	-4.7	-3.8	**49.5**	**54.8**
Depreciation and amortisation	-5.2	-5.2	-7.7	-6.3	-6.3	-3.2	**-19.2**	**-14.7**
Operating profit/loss	18.9	23.7	14.0	11.5	-13.5	-6.2	**19.4**	**29.0**
Net financials	-4.1	-3.6	-1.5	-1.7	-20.6	-12.3	**-26.2**	**-17.6**
Profit/loss before tax	14.8	20.2	12.5	9.8	-34.1	-18.6	**6.8**	**11.4**
Profit/loss from continuing activities	8.0	14.2	6.8	7.9	-18.5	-16.8	**-3.7**	**5.3**
Segment assets	383.8	389.7	120.6	117.9	-63.2	-44.4	**441.2**	**463.2**
Capital expenditure	2.7	5.0	6.8	5.2	0.5	1.1	**10.0**	**11.3**
Segment liabilities	381.4	391.7	77.4	82.5	166.2	185.8	**625.0**	**660.0**
Cash flows from operating activities	7.9	-17.2	15.3	19.2	-15.3	27.1	**7.9**	**29.1**
Cash flows from investing activities	-2.3	-2.5	-10.9	-8.9	-1.9	-3.0	**-15.1**	**-14.4**
Cash flows from financing activities	-28.5	-19.4	-1.0	-24.0	50.8	52.8	**21.3**	**9.4**
Cash flows from discontinuing activities	-	-	-	-	-14.2	-24.0	**-14.2**	**-24.0**
Total cash flows	**-22.9**	**-39.1**	**3.4**	**-13.7**	**19.4**	**52.9**	**-0.1**	**0.1**

* The item comprises the Group's shared service function comprising group management, finance and other group-related specialist functions.

The figures relating to SBS Automotive and SBS Friction are recognised inclusive of additional values, etc. in connection with the transfer of the activities from Scandinavian Brake Systems A/S at 5 November 2012 in accordance with the Group's management reporting. See pages 7-8 in the 2012 annual report of the Management commentary for disclosures on the transfer.

Transactions between segments are conducted at an arm's length basis. Internal revenue between segments is limited. Revenue primarily relates to invoicing of shared services.
Reportable segments of the SBS Group are made up of strategic business units which sell various products and services. Each unit is operated independently of the other units as each unit has different customers and end users and requires different technology and marketing strategy.
The SBS Group has two reportable segments: SBS Automotive and SBS Friction (continuing operations).

SBS Automotive comprises activities within vehicles, primarily sourcing, completion and distribution of brake parts and related wearing parts for vehicles.

SBS Friction's activities comprise the development, manufacturing and sale of friction materials for motorcycles, wind turbines and for several specialised areas.

The Notox Division comprises the manufacturing and sale of diesel particulate filters (assets classified as held for sale in 2015 and divested in 2016).

The Notox Division is presented as a discontinuing operation / assets classified as held for sale.

Each of the SBS Group's two reportable segments make up a considerable part of the enterprise and their activities and cash flows are clearly separable both for operational and accounting purposes.

The reportable segments have been identified without the aggregation of operating segments.

DKK million

NOTE 3 SEGMENT INFORMATION – (CONTINUED)

Products and services
Revenue of the SBS Group primarily relates to the sale of friction materials, see presentation above. The SBS Group has not defined and does not sell any services.

Geographical disclosures
The SBS Group is primarily engaged in the European market.

Upon the presentation of information regarding geographical areas, information provided on the allocation of revenue on geographical markets is based on the customers' geographical siting, whereas information on the allocation of activities on geographical segments is based on the physical siting of the activities.

	Europe		Other world		Consolidated Total	
	2016	**2015**	**2016**	**2015**	**2016**	**2015**
Revenue, external customers in Denmark	48.7	68.9	-	-	**48.7**	**68.9**
Revenue, external customers abroad	616.6	614.4	104.4	82.9	**721.0**	**697.3**
Revenue, see income statement					**769.7**	**766.2**
Non-current segment assets in Denmark	73.6	90.2	-	-	**73.6**	**90.2**
Non-current segment assets abroad	39.6	42.4	-	-	**39.6**	**42.4**
Non-current assets, see the statement of financial position**					**113.2**	**132.6**
Capital expenditure	10.0	11.3	-	-	**10.0**	**11.3**

** Non-current assets, see the statement of financial position, excl. investments, securities and deferred tax.

Significant customers

The SBS Group has no customers for which revenue exceeds 10% of total consolidated revenue.

Reconciliation of reportable segments' revenue, results of operations, assets and liabilities
Revenue, results of operation, assets and liabilities can be derived directly from the income statement on page 24 and from the statement of financial position on pages 26-27.

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