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 2017.

Extract of

ANNUAL REPORT 2017

MAKING ROADS SAFE SINCE 1964

Scandinavian Brake Systems A/S,
Kuopiovej 11, 5700 Svendborg, Denmark
CVR no. DK 32 77 42 10; LEI code 529900DY2V39LC8FJ309

sbs GROUP

sbs GROUP

SBS AUTOMOTIVE

SBS FRICTION

CONTENTS

THE YEAR IN OUTLINE

SBS GROUP

Consolidated revenue totalled DKK 735 million against DKK 770 million in 2016, which reflects the development in the divisions as described above.

The Group's operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring) came in at DKK 61 million against DKK 50 million in 2016.

Profit for the year totalled DKK 20 million against DKK 6 million in 2016.

The results of operations are in line with the Company's announcement at 4 December 2017.

In March 2017, the SBS Group entered into a three-year credit agreement with the Group's bankers. Combined with improved results of operations and continuous reduction of the Company's debt formed the basis of a more stable foundation for the Group's business activities, SBS Automotive and SBS Friction for which efficiency improvements and business development were focal points.

SBS AUTOMOTIVE

- Focus on earnings, EBITDA recurring +27%
- New NK sales concepts
- NK distribution agreements in the UK and in Poland
- Efficiency improvements in the supply chain,
  - Extension and optimisation of distribution centre in Germany
  - Relocation of packaging operation for brake shoes to Germany
  - Relocation of packaging operation for brake discs and brake drums to Poland - ISO certification followed

SBS FRICTION

- Record-high revenue and EBITDA
- Authorisation to projects at the OEM market
- Expansion of the product portfolio with brake discs, etc.
- Development projects for "green" products
- Implementation of a new brand platform

SBS AUTOMOTIVE

Revenue of DKK 605 million against DKK 647 in 2016. The development reflects the adaptations of the customer portfolio performed on the basis of earnings as well as geographical perspectives. The Scandinavian market developed positively, however.

Despite the development in revenue, SBS Automotive made more money than the year before. EBITDA recurring increased from DKK 33 million to DKK 41 million which is attributable in particular to efficiency improvements in the supply chain, and price optimisations within specific customer segments.

SBS FRICTION

For the third year in a row, SBS Friction reported record-high revenue totalling DKK 130 million against DKK 123 million in 2016. EBITDA recurring was also record high: DKK 24 million compared to DKK 22 million in 2016. The increase is in particular attributable to a positive development on the Company's core markets in Europe.

EQUITY, CASH RESOURCES AND FINANCING

The reduction of the Group's net interest-bearing debt continued in 2017 - from DKK 469 million at 31 December 2016 to DKK 429 million at 31 December 2017.

Equity developed from a negative DKK 184 million at 31 December 2016 to a negative DKK 166 million at 31 December 2017.

OUTLOOK FOR 2018

The Group expects to generate revenue in 2018 in the range of DKK 740-765 million and EBITDA recurring of DKK 65-75 million.

FINANCIAL OVERVIEW

61.2 MILLION DKK

EBITDA (RECURRING)

SBS Group's EBITDA (recurring) increased by 24% - from DKK 49.5 to DKK 61.2 million

20 MILLION DKK

PROFIT/LOSS AFTER TAX

Notable increase in profit/loss after tax - from DKK 6 million to DKK 20 million

-40 MILLION DKK

NET INTEREST-BEARING DEBT

Reduction of net interest-bearing debt from DKK 469 million to DKK 429 million

55 MILLION DKK

CASH FLOW

Focus on net working capital

FINANCIAL HIGHLIGHTS

DKKm Key figures	2017	2016	2015	2014	2013
Revenue	735.0	769.7	766.2	1.013.9	1.037.1
Index (2013 = 100)	70.9	74.2	73.9	97.8	100.0
Operating profit before depreciation. amortisation. impairment losses and special items (EBITDA recurring)	61.2	49.5	54.8	65.7	75.3
Profit on the sale of activity	-	-	-	66.6	-
Other special items (reorganisation. etc.)	-3.7	-10.9	-11.1	-20.2	-4.1
Operating profit before depreciation. amortisation and impairment losses (EBITDA)	57.5	38.6	43.7	112.1	71.2
Depreciation. amortisation and impairment losses	-16.2	-19.2	-14.7	-15.7	-16.0
Operating profit (EBIT)	41.3	19.4	29.0	96.4	55.2
Finance income and finance costs (net)	-21.5	-26.2	-17.6	-3.9	-38.9
Profit/loss from continuing operations before tax	19.8	-6.8	11.4	88.2	14.4
Profit/loss from continuing operations after tax	19.2	-3.7	5.3	-	-
Profit/loss from discontinuing operations after tax	0.5	10.0	-177.2	-	-
Profit/loss for the year (after tax)	19.7	6.3	-171.9	61.7	0.3
Non-current assets	170.5	160.2	164.2	331.7	374.0
Current assets	274.1	281.0	299.0	275.8	391.9
Total assets	444.6	441.2	463.2	607.5	765.9
Share capital	32.1	32.1	32.1	32.1	32.1
Equity	-165.9	-183.8	-196.8	-26.3	-89.3
Non-current liabilities	422.9	451.1	460.5	73.8	602.8
Current liabilities	187.6	173.9	199.5	560.0	252.5
Net working capital (NWC)	175.2	188.7	186.0	189.1	295.9
Net interest-bearing debt (including subordinate loan capital (2013))	429.3	468.9	484.4	440.9	631.4
Average number of employees	260	283	316	443	450
Revenue per employee	2.8	2.7	2.4	2.3	2.3
Cash flow from operating activities	55.4	7.9	29.1	-13.8	78.0
Cash flow to investing activities. net	-24.4	-15.1	-14.4	188.9	-10.5
Hereof invested in property. plant and equipment	15.8	9.9	11.5	11.3	8.6
Cash flow from financing activities	-33.3	21.3	9.4	-175.2	-67.6
Cash flow from discontinuing operations	2.3	-14.2	-24.0	-	-
Total cash flows for the year	-	-0.1	0.1	-	-

Financial ratios	2017	2016	2015	2014	2013
Operating profit before depreciation. amortisation. impairment losses and special items. EBITDA recurring margin	8.3	6.4	7.2	6.5	7.3
EBITDA margin	7.8	5.0	5.7	11.1	6.9
EBIT margin	5.6	2.5	3.8	9.5	5.3
Return on invested capital (ROIC excl. GW)	20.3	8.6	11.7	27.5	18.0
Return on equity in % (ROE)	I/A	I/A	I/A	I/A	I/A
Equity ratio	-37.3	-41.6	-42.5	-4.3	-11.7
Earnings/diluted earnings per share in DKK (EPS Basic/EPS-D)	6.1	2.0	-53.6	19.2	0.1
Net asset value per share in DKK (BVPS)	-51.7	-57.3	-61.3	-8.2	-27.8
Price/net asset value	-0.5	-0.5	-0.5	-5.0	-1.0
Market price at year end	26.5	26.7	28.8	41.0	28.3

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". For terms and definitions, please see the accounting policies, page 51.

Financial highlights for 2013-2014 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 51.

STRATEGIC DEVELOPMENT OF THE SBS GROUP

Efforts in recent years to find a solution to the particulate filter business Notox ended with a sale in 2016. Through the credit agreement with the Group's bankers in March 2017, which is in force until April 2020, and the continuous reduction of net interest-bearing debt a more stable financial foundation for the Company has been established.

Therefore, the operating and growth-oriented initiatives, which are based on the Company's two business areas, were given higher priority in 2017. For a further description of the initiatives, please see the chapters surrounding the Group's divisions.

The most important general strategic focus areas are:

MARKET EXPANSIONS

As part of the strategic efforts, the SBS Group Management focuses on market expansions as a central growth stimulating parameter. Therefore, both divisions focus their efforts on expansion based on a development of the product range and geographic spread.

The divisions focus on widening the product range through new product groups and on deepening the product range through an increased number of references and variances within the established product groups.

In 2017, SBS Automotive has in particular focused on entirely new product concepts within the steering part group and on new specialised product types within established product groups such as e.g. brake discs.

In the year under review, SBS Friction introduced brake discs and a small group of accessories allowing the division to present a far wider and more attractive brake parts product range, which is marketed under the SBS trademark.

Geographically, SBS Automotive's central point is Central Europe and Scandinavia. In recent years, the geographical platform was expanded successively building up the markets in Eastern Europe in particular in Poland and Russia. In 2017, NK distribution agreements were established in the UK and in Poland just as the division is working on penetrating the markets in the "outskirts" of Europe - first of all the Middle East.

As is the case with the sister division, SBS Friction's geographical central point is in Europe, where the market share is considerable. Moreover, SBS Friction is represented in several overseas markets. Strategic focus is on further growth outside Europe, not least in the US as this is the world's largest market for motorcycle parts.

DEBT REDUCTION AND RE-ESTABLISHMENT OF EQUITY

The primary strategic focus of the Board of Directors and the Executive Board is to ensure a long-term, sustainable, financial basis for the Group.

Despite the business solution regarding Notox, the SBS Group bears a heavy debt burden caused by the investment in this business area.

Therefore, debt reduction and re-establishment of equity are essential to Management's strategic work.

In 2017, net-interest bearing debt was reduced by approx. 10%, whereas SBS Group equity improved correspondingly. In 2018 and ahead, these areas will remain focal points so that the Parent Company's equity can be re-established within a foreseeable time horizon.

DIGITALISATION

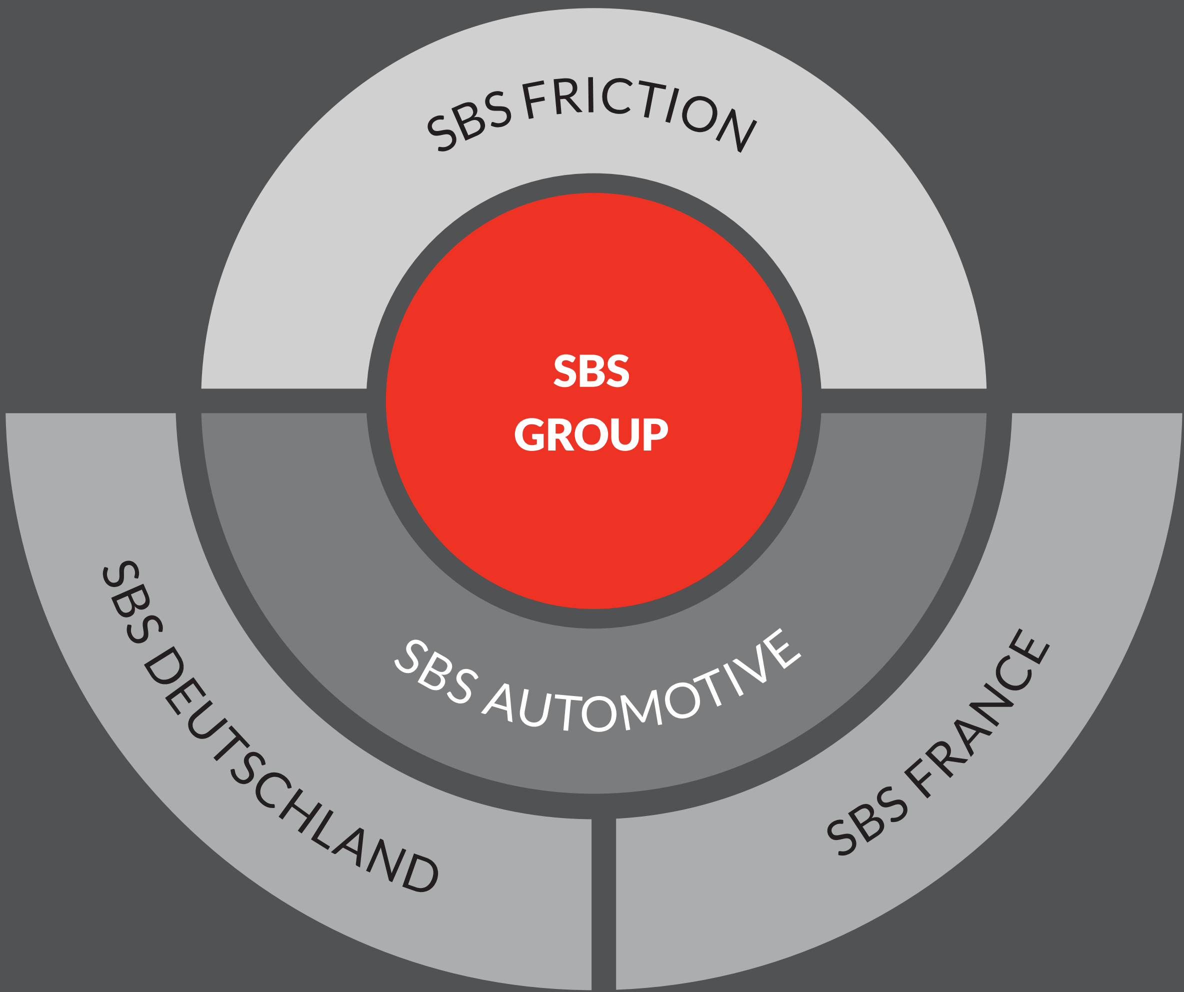
New digitalised business models and platforms bring new perspectives, but also challenges.

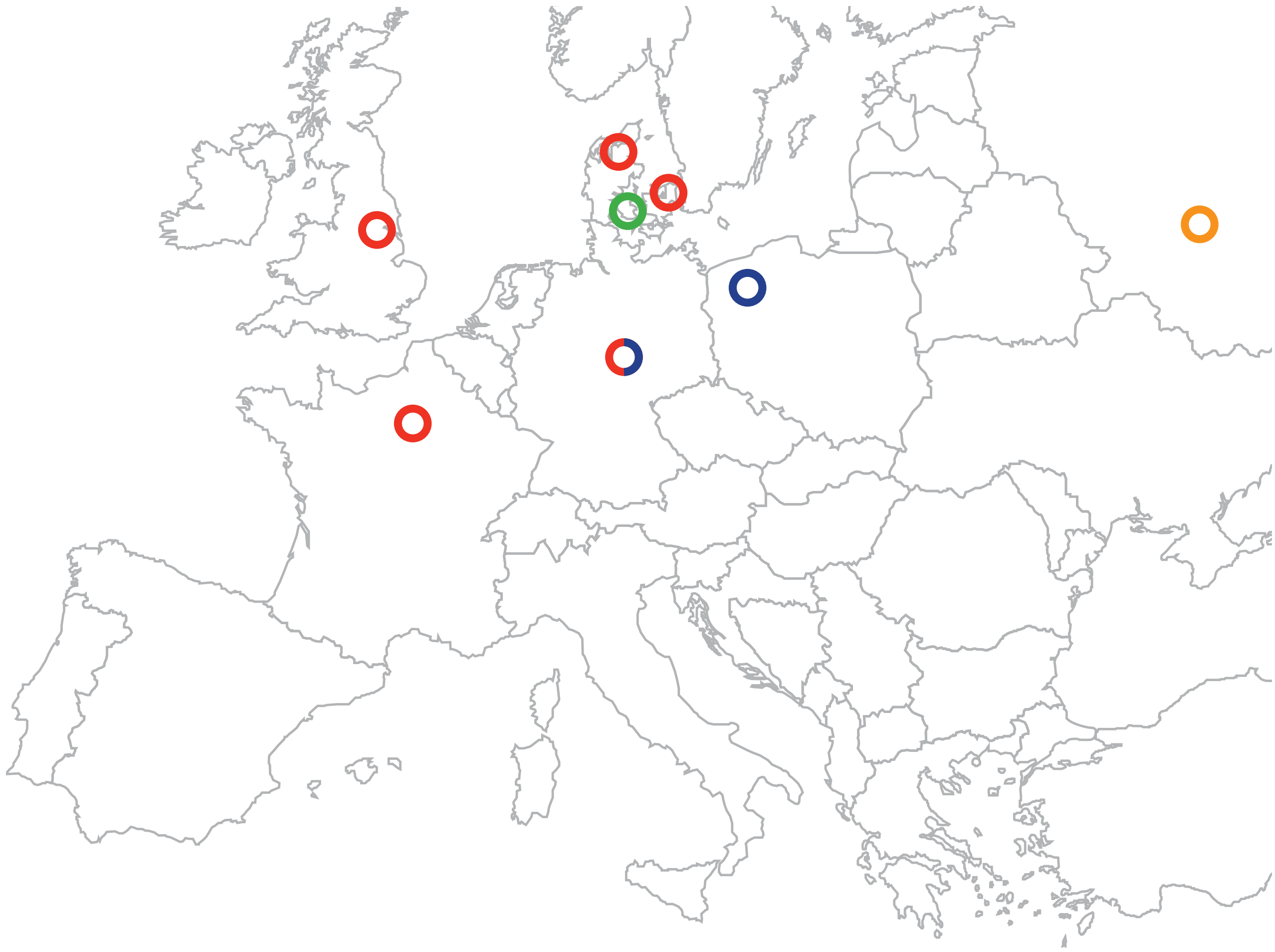
Be it production, logistics, marketing or branding, the utilisation of the digital opportunities is a central, strategic key action area.

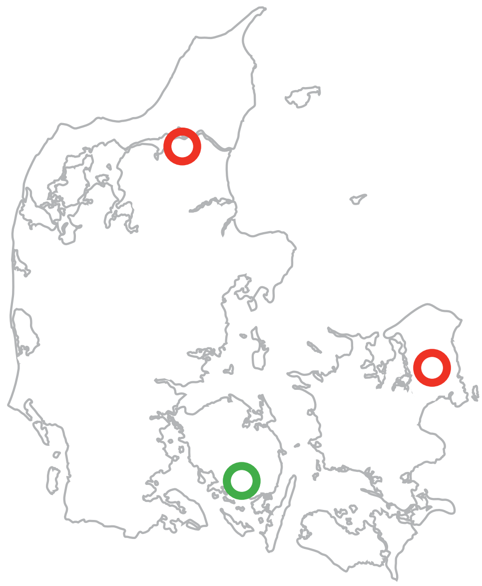
The SBS Group has developed a joint IT and digitalisation strategy for the Group's business areas, which involves the implementation of a new, general IT platform within the next years. Except to setting the framework for the Group's future IT platform, several areas are addressed by which intensified digitalisation will be instrumental in improving and streamlining the divisions' businesses.

Thus, focus is still on new, digitalised tools for handling product data, digitalised distribution and sales concepts as well as targeted use of digitalised communication tools for marketing purposes. Setting priorities and executing the digital measures will take place at division level as business models and needs are different.

SBS GROUP STRUCTURE







SBS FRICTION

Production site:
Brake pads
Svendborg, DK

SBS FRICTION

Sales office:
Daytona Beach,
Florida, USA

SBS AUTOMOTIVE

Packaging
operations:
Brake shoes
Eisenach, DE
Brake discs &
-drums
Stettin, PL*

SBS AUTOMOTIVE

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

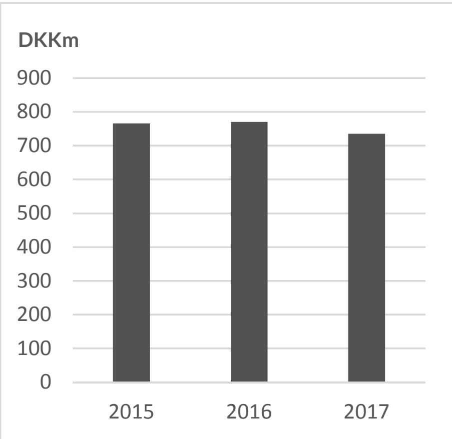
SBS AUTOMOTIVE

Sales office:
Moscow, RU

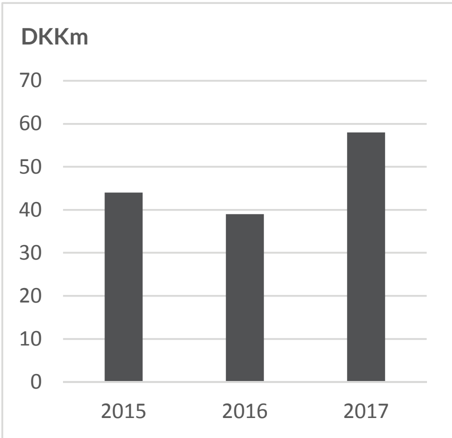
* Logistics operations in cooperation with partner.

FINANCIAL REVIEW AND EXPECTATIONS OF 2018

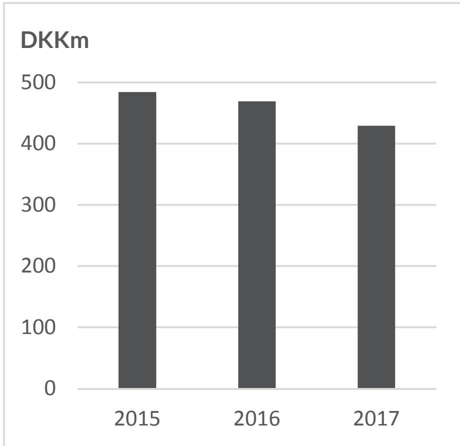
SBS GROUP REVENUE



SBS GROUP EBITDA



NET INTEREST-BEARING DEBT



DEVELOPMENT AND RESULTS OF OPERATION

SBS group revenue was DKK 735 million against DKK 770 million in 2016.

Development of the divisions

DKKm

Revenue	**2017**	**2016**
SBS Automotive	605	647
SBS Friction	130	123
SBS Group revenue	**735**	**770**

SBS Automotive reported revenue of DKK 605 million in 2017 against DKK 647 million in 2016.

Development in revenue reflects fierce competition for auto parts in large parts of Europe.

In the year under review, focus was on optimising revenue in areas characterised by sound earnings and correspondingly on phasing out customers with dissatisfactory contribution ratios.

SBS Friction realised revenue of DKK 130 million in 2017 against DKK 123 million in 2016.

For the third year in a row, the Group reported record-high revenue in a year with fair sales conditions on the Company's principal markets in Europe.

SBS Group EBITDA broken down on divisions

EBITDA in DKKm	**2017**	**2016**
SBS Automotive	41	33
SBS Friction	24	22
SBS Group functions	-4	-5
EBITDA recurring SBS Group	**61**	**50**
Other special items	-3	-11
EBITDA SBS Group	**58**	**39**

SBS Automotive realised EBITDA recurring of DKK 41 million in 2017 against DKK 33 million in 2016. The positive trend is attributable to reduced cost of sales, efficiency improvements in the supply chain, the effect of the relocation of the logistics and packaging operations for brake discs to Poland and optimisation of sales prices given the competitive market. For further comments on the development in SBS Automotive, please refer to pages 12-15 in the Management commentary.

SBS Friction realised EBITDA recurring of DKK 24 million in 2017 against DKK 22 million in 2016. The increase primarily relates to the development in revenue. For further comments on the development in SBS Friction, please refer to pages 16-19 in the Management commentary.

SBS Group's EBITDA recurring was DKK 61 million against DKK 50 million in 2016. EBITDA totalled DKK 58 million against DKK 39 million in 2016.

Depreciation, amortisation and impairment losses totalled a negative DKK 16 million against a negative DKK 19 million in 2016.

EBIT then totals DKK 41 million against DKK 19 million in 2016.

Finance income and finance costs totalled a negative DKK 22 million against a negative DKK 26 million in 2016.

Profit from continuing operations before tax then totals DKK 20 million against a negative DKK 7 million in 2016.

Profit for the year totalled DKK 20 million against DKK 6 million in 2016.

Profit for the year and results of operation underpin that the SBS Group's business areas are sound and solid.

CHANGES IN STATEMENT OF FINANCIAL POSITION

DKKm	2017	2016
Non-current assets	171	160
Current assets	274	281
Non-current liabilities	423	451
Current liabilities	188	174
Equity	-166	-184

Total assets amounted to DKK 445 million at 31 December 2017 compared to DKK 441 million on the same date the year before.

Non-current assets totalled DKK 171 million at year-end 2017 compared to DKK 160 million at year-end 2016. The increase primarily relates to a new building in the German company.

Current assets totalled DKK 274 million at year-end 2017 compared to DKK 281 million at year-end 2016.

Non-current liabilities amounted to DKK 423 million at year-end 2017 compared to DKK 451 million at year-end 2016. The development primarily relates to a reduction of the SBS Group's net interest-bearing debt. In March 2017, the SBS Group entered into a long-term credit agreement with the SBS Group's bankers. The agreement is in force until April 2020 and will be renegotiated before expiry.

The SBS Group's net interest-bearing debt represented DKK 429 million at 31 December 2017 against DKK 469 million at 31 December 2016. The debt reduction is attributable to the general positive business development and the targeted focus, which the SBS Group's management has on this area.

Current liabilities totalled DKK 188 million at 31 December 2017 against DKK 174 million at 31 December 2016.

Investments totalled DKK 24 million compared to DKK 15 million the year before.

Equity totalled a negative DKK 166 million at 31 December 2017 compared to a negative DKK 184 million the year before.

In 2017, the buildings in Holstebro were sold that used to house the packaging operations, which were relocated to Poland. The sale implied a reduction of the statement of financial position of DKK 9.9 million.

CHANGES IN CASH FLOWS

DKKm	2017	2016
Cash flows from operating activities	55	8
Cash flows from investing activities	-24	-15
Cash flows from financing activities	-33	21
Cash flows from discontinuing operations	2	-14
Net cash flows	**-**	**-**

PARENT COMPANY

The Parent Company acts as shared service centre for the SBS Group and the subsidiaries. The Parent Company realised EBITDA recurring of a negative DKK 4 million in 2017 compared to a negative DKK 4 million in 2016.

Depreciation, amortisation and impairment losses totalled a negative DKK 3 million against a negative DKK 6 million in 2016.

EBIT then totals a negative DKK 7 million against a negative DKK 13 million in 2016.

Finance income and finance costs totalled a negative DKK 11 million against a negative DKK 21 million in 2016. The difference primarily relates to extraordinary interest rate swap costs in 2016.

Profit from continuing operations before tax totals a negative DKK 9 million against DKK 0 million in 2016.

Profit for the year totalled a negative DKK 7 million against DKK 19 million in 2016.

The Parent Company's equity amounted to a negative DKK 32 million at 31 December 2017 compared to a negative DKK 26 million at 31 December 2016.

EVENTS AFTER THE REPORTING PERIOD

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

OUTLOOK FOR 2018

The SBS Group expects to generate revenue in 2018 in the range of DKK 740-765 million and EBITDA recurring of DKK 65-75 million.

SBS AUTOMOTIVE

SBS AUTOMOTIVE

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

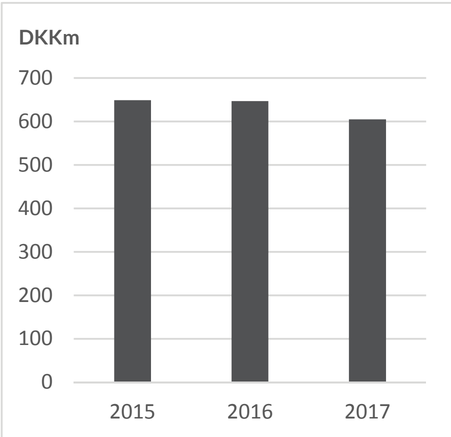
The division's business foundation includes sourcing, completion, inventory management, branding and distribution of spare parts.

The product range includes wear parts, primarily within the categories brakes, steering parts, suspension, transmission and clutches.

SBS Automotive has sales and distribution platforms in Germany, France and Denmark. Moreover, the division has logistics and packaging operations for brake discs and brake drums in Poland and a distribution set-up in the UK - both in cooperation with an external party. Finally, SBS Automotive is represented on the important Russian market having a sales office in Moscow.

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 supplies which are in particular demanded by importers and distribution channels with central inventory functions. Furthermore, SBS Automotive offers customised concepts in private labels through its logistics and packaging operation in Poland.

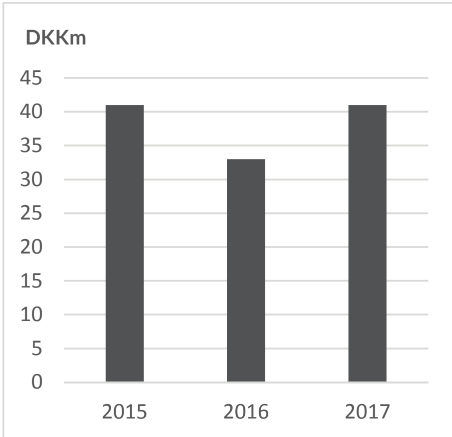
REVENUE



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 marketed throughout Europe. In the market, the NK brand is positioned below premium brands, but is a strong alternative to them in respect of quality, assortment and supply.

The remaining part of sales is primarily made as private labels within brake discs, brake drums and brake shoes.

EBITDA recurring



SBS Automotive sells its products throughout Europe. Germany is the largest market. In addition, Scandinavia, France, Russia, Poland and the UK are important markets.

The customer portfolio comprises a broad spectrum of distributors on the automotive aftermarket, including international groups, national importers, capital chains, purchasing groups and independent, local wholesalers.

SBS AUTOMOTIVE

Focus on earnings, EBITDA recurring +27%

New NK sales concepts

NK distribution agreements in the UK and in Poland

Efficiency improvements in the supply chain,

- Extension and optimisation of distribution centre in Germany
- Relocation of packaging operation for brake shoes to Germany
- Relocation of packaging operation for brake discs and brake drums to Poland - ISO certification followed

BUSINESS DEVELOPMENT IN 2017: Improved earnings despite difficult market conditions

FINANCIAL RATIOS

DKKm	**2017**	**2016**
Revenue	605	647
EBITDA recurring	41	33

These years, the European automotive aftermarket is changing considerably. The car fleet and mileage are on the increase stimulating demand. At the same time, wear-resisting spare parts, leasing concepts for private cars and new digitalised service concepts pose a challenge to the free repair market.

To this must be added industry consolidations whereby private equity funds and major industry players make acquisitions in the automotive aftermarket, which contributes to a rationalisation of the distribution channel towards less and larger units. A rather new example of this trend is the US LKQ's acquisition of a leading, German wholesaler in December 2017. Of course the development poses new challenges within sourcing and supply chain specialists such as NK, which must adjust its approach to the market to the new conditions.

SBS Automotive reported revenue of DKK 605 million in 2017 against DKK 647 million in 2016. At the same time, EBITDA recurring increased from DKK 33 million to DKK 41 million.

The decrease in revenue indicates a change in the market conditions and reflects the adjustments made to the customer portfolio based on earnings as well as a geographical approach through most of the year; however major, regional differences are evidenced. SBS Automotive noted an upturn in Scandinavia, status quo in France and a downturn on the German market i.a. due to the deselection of individual customers with low margins. In 2017, Germany noted continued consolidations, increasing re-import of premium brands from i.a. Poland at low prices and intensified competition in the wholesaler segment due to the consolidations.

Through targeted efforts, SBS Automotive has streamlined its supply chain according to the strategy plan. The strongly improved EBITDA recurring is to be seen in that perspective. Savings are obtained in all supply chain links. Savings in connection with efficiency improvements and relocation of the packaging operation for brake discs to Poland have materialised, and targeted price optimisation measures have, to a certain extent been successful considering the competitive market.

In the year under review, SBS Automotive has implemented a number of new initiatives both in relation to the market efforts and the supply chain. Based on the ongoing industry consolidation, new concepts have been developed, which are to make the NK brand more attractive to the major market players. To begin with, those concepts are now being rolled out on the German market.

In the autumn of 2017, an agreement was made with a nationwide, British distributor on the storing and distribution of the NK range in the UK. This is a new, strategic initiative. The inventory was established at the beginning of 2018, which will make NK available to the aftermarket in the UK through the distributor's approx. 15 warehouses.

In terms of its product range, SBS Automotive developed a new product concept in 2017 within steering components under the name "NK PRO". These are products of particularly high quality, which are in demand on several markets where driving conditions make

additional demands on lasting quality. The product was launched at the beginning of 2018.

Within the supply chain area, the relocation of the packaging operation for brake discs and brake drums to Poland was completed. In September, the packaging facilities were certified to ISO, which strengthens sales opportunities in particular in respect of major private label customers on the market where the documentation need is considerable.

Moreover, several other projects were launched for purposes of streamlining and reducing costs and working capital in SBS Automotive. During the year, the packaging facilities for brake shoes were moved from Svendborg to the company in Eisenach. In addition, the establishment of an expansion and optimisation of the distribution centre were completed, which include modern warehouse technology. The new warehouse has improved general logistics facilities and made it possible to close down inexpedient remote warehouses.

The development of SBS Automotive's inventory concept continued in 2017. The division of roles between the divisions was changed, which i.a. implied an improved model for the supply of slow-moving items located in the entity's central warehouse in Eisenach.

STRATEGIC FOUNDATION AND DEVELOPMENT

After a comprehensive transformation process from a relatively production-intensive entity to a commercially focused supply chain business, SBS Automotive stands today as an efficient and flexible provider of a broad range of wear parts in good quality.

After a number of years with revenue growth as its primary focal point, SBS Automotive has increased its focus on efficiency improvements and earnings in 2016 and 2017. The focus on those areas will remain high, but revenue growth must also be given high priority.

Revenue growth is i.a. to derive from the cultivation of new markets and from the implementation of new product areas.

The establishment of NK in the UK is an example of the first mentioned. Also, the division will strive at increasing market efforts in the outskirts of Europe i.a. on the markets in the Middle East. Establishing a new steering part product range is an example of the development of the market through an expansion of the product range. The launch of new product lines is being considered for 2018/2019.

SBS Automotive will focus in particular on the B2B segment and on the NK product range. Efforts made in respect of major chains will be intensified i.a. through the new concepts. Efficiency measures in the market may open up for new opportunities for the supply of brake discs in private label, where SBS Automotive's flexible concepts and high delivery capacity may be attractive to them to ensure the width of their product range.

SBS
FRICTION

SBS FRICTION

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

The product portfolio includes self-developed and self-produced brake lining as well as goods for resale in the form of brake discs, brake shoes and brake accessories.

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 the free aftermarket. The European aftermarket for motorcycle parts makes up the primary market on 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. The OEM market includes brake systems developers, manufacturers of vehicles, wind turbines or other machines and plants using friction technology.

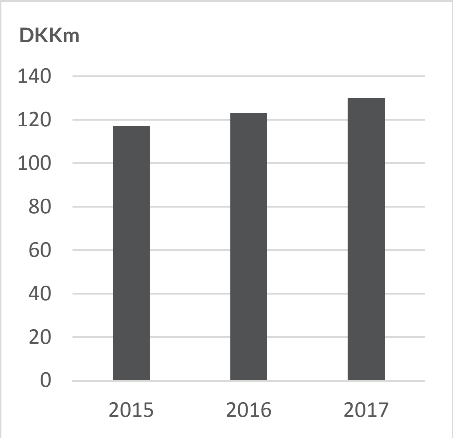
Activities of the division are located in Svendborg.

BUSINESS DEVELOPMENT IN 2017: Record year, new products and qualification to OE supplies.

FINANCIAL RATIOS

DKKm	2017	2016
Revenue	130	123
EBITDA recurring	24	22

REVENUE



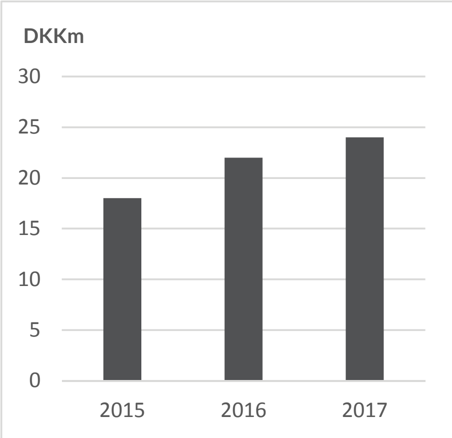
The European motorcycle market was characterised by generally stable sales conditions. As to the OEM market, which is project-oriented, market developments are mainly based on the number of projects and their volume.

For the third year in a row, SBS Friction reported record-high revenue and earnings. Revenue reached DKK 130 million against DKK 123 million in 2016, whereas EBITDA increased from DKK 22 million in 2016 to DKK 24 million in 2017.

The revenue growth is in particular attributable to a sound development on the part of the division's core customers represented by well-established distributors on the aftermarket. At the same time, the staking on the OEM market gains effect proven by improvements in the motorcycle as well as the wind turbine industries.

First of all, the development in EBITDA recurring reflects the revenue growth.

EBITDA recurring



2017 was characterised by a number of initiatives directed at the entity's business foundation.

In the spring, brake discs for motor-cycles and scooters were introduced as a new product range for the aftermarket. Brake discs are the second largest product group within brake parts and will strengthen the complete product range to the distributors. The entity has also implemented a small product line which is to help SBS Friction provide a complete brake parts product range under one trademark.

As to the OEM market and subsequent to a lengthy and intensive auditing process, SBS Friction was approved as a potential supplier to OEM projects with the world's largest brake system developer on the extensive and attractive sintering product market. The approval paves the way for new perspectives as the entity thereby has obtained access to tender for far more projects with a higher volume.

SBS FRICTION

- **Record-high revenue and EBITDA**
- **Authorisation to projects at the OEM market**
- **Expansion of the product portfolio with brake discs, etc.**
- **Development projects for “green” products**
- **Implementation of a new brand platform**

In terms of product development, the entity has in particular focused on environment-friendly products with low or no specific critical metals. In Q2, a “green” ceramic lining was launched, which in addition to its environment-friendly nature is remarkable for its cost structure, which is competitive in the scooter segment, which is under pressure from cheaper products from the East. Throughout 2017, the development department has worked on developing environment-friendly sintering lining. The development department is working together with the Innovation Fund Denmark, which has subsidised the project. The development of the new “green” sintering lining is expected to be completed in 2021.

Late in the year, SBS Friction introduced a new brand platform, which is to ensure that the SBS trademark has a sharper and more modern profile in the market. The platform was presented at the world’s largest motorcycle fair in Milan. The new profile is i.a. to support sales of the enlarged product range for the aftermarket.

STRATEGIC FOUNDATION AND DEVELOPMENT

SBS Friction is an entity with development, production, sale and branding as value-creating activities.

The entity’s strategy is based on growth on the aftermarket as well as on the OEM market.

As to the aftermarket, SBS Friction has through year-long, targeted efforts established themselves as Europe’s leading supplier of brake lining using the SBS trademark as well as private labels. Despite a high market share, there is still a growth potential for the European market. The growth is to be based on new products within brake lining and on an expansion of the product range to include related products from which the division may derive advantage from the strong SBS brand. Targeted efforts are made for both areas. A new “upgrade” lining type for large, new motorcycle models based on the newest production technology, conductive sintering, is an example of the first mentioned - expansion of the product range with the product lines brake discs and brake accessories is an example of the last mentioned.

As to the global market outside Europe, growth could be ensured through increased market shares. The division has in particular strategic focus on the US, the world largest market for motorcycle parts - a market where SBS Friction’s share is still limited. SBS Friction has established its own sales office in Florida and is working on the establishment of the best suitable distribution channels for the large market, which includes digital platforms that are to ease and streamline the

ordering and delivery processes. Concurrently, distributors that market products in their own brands are cultivated in order to qualify for making supplies to them.

Strategically, SBS Friction focus on the OEM market too. This market gives access to delivering brake lining to factory assembly and paves the way for supplying spare parts to the vehicle manufacturers' own brands.

The OEM sale is resource-demanding and has long implementation periods. On the contrary, this gives the opportunity of long-term agreements with considerable volume.

SBS Friction's growth in supplies to the OEM market has been increasing gradually. However, it is essential to the growth strategy that the division increases its sale within sinter lining, which in terms of value and volume is the most attractive segment.

Investments have been made in this area relating to production technology, process optimisation and quality control to ensure that SBS Friction lives up to the highest standards. The successful authorisation in 2017 from the largest brake system manufacturer was a milestone in that process. Ahead of us is now the competition for the projects tendered and in connection with which, the new authorisation will be used actively to assure new agreements.

The OEM market also includes other industries such as the wind turbine industry. SBS Friction has built up considerable know how within brake lining for this industry, and considering its flexible approach to product development, the division has good opportunities for entering into close project cooperation agreements with these customer types.

Experiences from the wind turbine industry show that SBS Friction possesses specialised know how within friction solutions, which most likely can be utilised within other niche-specific industries in need of friction technology.

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 2017. The statement is published on the Company's web page http://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 SBS Group's internal control and risk management systems, and the composition of the SBS Group's management bodies.

SBS' Management continuously assesses and updates the strategy plan for the SBS Group and the individual business areas. The existing plan covers the period up to the end of 2019.

At present, the Company's Board of Directors comprises six members thereof two employee representatives. The Board of Directors includes Peter Eriksen Jensen (Chairman), John Staunsbjerg Dueholm (Vice chairman), Lars Radoor Sørensen, Pernille Wendel Mehl and the employee representatives Jytte Petersen and Jan B. Pedersen.

Pernille Wendel Mehl was appointed new member of the Board of Directors in 2017.

Due to job change, the employee representative, Henrik Bjørnbak, retired from the Board of Directors in 2017. Management of the Group would like to take the opportunity to thank Henrik Bjørnbak for his efforts.

On 21 March 2018, ordinary election will take place of three employee representatives that are to be elected among the SBS Group's Danish employees. The former function as employee representative for the parent company will cease.

ORGANISATIONAL FOCUS AREAS

The SBS Group's entities operate international on areas and markets that place great demands as to the organisation's efficiency and the employees' qualifications.

In 2017, the German company's sales function was strengthened by a new management and a gradual generational change has been initiated.

Both divisions have made heavy investments in new IT tools within the control of product range and product data. In this relation, new product management functions were established, and the areas have been subject to empowerment.

The general European boom and the consequential lack of qualified manpower pose a challenge to all SBS companies. Therefore, it is important that SBS appears as an attractive working place that attracts new talented employees. In that connection, the Company works together with universities and educational institutions and has successfully offered relevant final projects to qualified students to ensure a recruitment opportunity directly at the educational institutions. In addition, SBS offers in several areas apprenticeships for purposes of qualifying young people with short educations for the job in the division.

KNOWLEDGE RESOURCES AND R&D ACTIVITIES

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

ENVIRONMENTAL CONSIDERATIONS

The SBS Group does not engage in any business that causes environmental impact beyond what is expected from a production and logistics company.

In terms of product development, SBS Friction continuously works on new lining types where the impact on resources and environment is considered just as are the demands on braking ability and lasting quality. In 2017, the Group introduced environment-friendly brake lining and is presently working on sintering lining that do not contain specific metals that have a documented negative environmental impact.

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. 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 SBS 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

CORPORATE GOVERNANCE AND OTHER ISSUES

are not under an obligation to have employee representatives.

In 2017, Pernille Wendel Mehl was elected new member of the Board of Directors by the general meeting, which now includes one female member appointed by the annual general meeting and one female employee representative.

Thereby, the female representation appointed by the annual general meeting is 25% and one third of the complete Board of Directors, which reflects the Board of Directors' goal.

It is company policy that the managers at Board of Directors and functional management levels must 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 considers diversity among its managers a strength and will make an effort to promote that.

It is Company goal that the number of female members at Board of Directors and functional management levels totals at least 40%. At 31 December 2017, the number was 43%.

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

At present, the Board of Directors of Scandinavian Brake Systems A/S includes two employee representatives. On 21 March 2018, three new employee representatives will be elected among the SBS Group's Danish employees. In that connection, employee representative elected in the parent company will cease.

RISKS

RISK POLICY
Prompted by its operations, investments and financing, the SBS 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 SBS Group's financial risk management is centralised. The general framework for financial risk management is laid down in the SBS Group's financial policy, which is approved by the Board of Directors. It is the SBS Group's policy not to engage in active speculation in financial risks. Thus, the SBS Group's financial management is aimed at managing and reducing the financial risks directly attributable to the SBS Group's operations, investments and financing. The SBS 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.

Competitive conditions are governed by EU legislation on block exemption within the auto business, which among other things governs the relation between OEM and the free aftermarket. Basically, EU's legislation was to ensure free competition, and thereby the best conditions for the consumers. The technological development, including the car manufacturers' opportunities for utilising the so-called "in-vehicle" data, is currently a challenge to the legislative framework's intentions. Additional legislation is needed to ensure the free market's access to data, if the intentions of the EU legislation regarding free competition to the benefit of the consumers are to be upheld in the long run. Such interests are safeguarded by the international and national industry associations that represent the operators on the free aftermarket.

As to the environment, focus was generally on the development of combustion engine alternatives. Electric and hybrid cars gain market shares, but still account for a modest share of the total market. In the long run, a shift to new technologies will affect the spare parts market due to the significant construction and function-related differences between the various types of vehicles.

Moreover, particularly the limitations in the application of certain materials damaging to the environment, such as e.g. certain 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 products.

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 car. This means that SBS' market base is stable and resilient to market fluctuations. A small part of 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 structural rationalisations and mergers in the industry, which may change the supply and demand situation, and therefore may affect the competitive environment. Likewise, risks will be attached to the so-called "in-vehicle" data and the future access to those data as there is no specific legislation so far that considers the new technology in connected cars and that ensures access thereto for the free market.

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

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

The SBS 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 SBS Group's currency risks relate primarily to USD. 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

RISKS

options for receivables and – based on an individual assessment – through currency swaps and liabilities.

The main part of the SBS Group's production takes place in Denmark. Export opportunities may therefore deteriorate in case of a strengthening of the Danish Krone against relevant 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 SBS Group's most significant currency exposure is deemed to relate to sales and purchases outside the Euro area.

The sensitivity of 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 SBS 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 SBS Group's financing is based on variable-rate loans/credits and the SBS 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 SBS 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 SBS Group's banks. The SBS Group strives to hold sufficient liquid funds to ensure appropriate room for manoeuvre in case of unforeseen fluctuation in liquidity.

The SBS Group's cash resources at 31/12/2017 are specified as follows:

DKKm	**2017**
Cash	0.1
Undrawn credit facilities	37.0
Cash resources at 31 December 2017	**37.1**

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

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

CREDIT RISKS
The SBS 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 SBS 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 SBS 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 at Nasdaq Copenhagen A/S under the ID code 0060042612. 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 SBS 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 2018. 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 2017. 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.

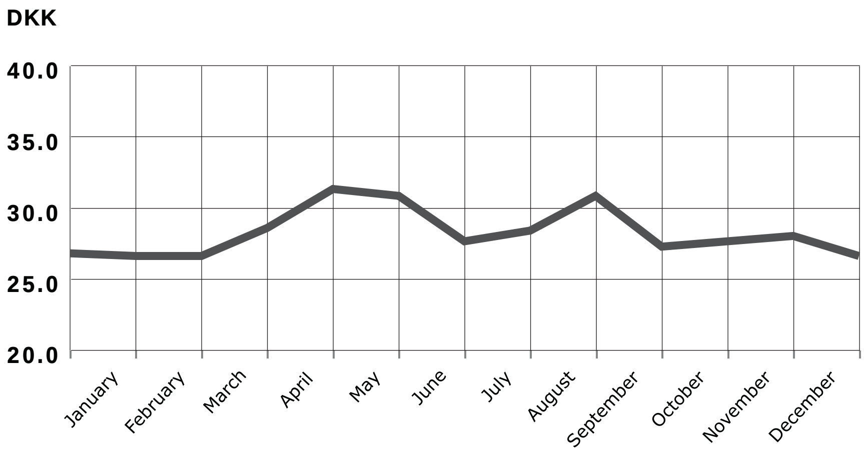
ARTICLES OF ASSOCIATION
The Company's articles of association may be amended by a simple majority at a general meeting if the proposed amendment is notified to the shareholders at the latest three weeks prior to holding an ordinary or extraordinary general meeting and if 66.7% of the issued shares are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

RULES FOR APPOINTING AND REPLACING MEMBERS OF THE BOARD OF DIRECTORS
SBS has four board members elected at the general meeting and two members elected by the employees. On 21 March 2018, ordinary election will take place of three employee representatives that are elected among the SBS Group's Danish employees. The board members elected by the general meeting are elected for one year at a time, while the members elected by the employees are elected for a four-year period. Thus, all board members elected by the general meeting must be re-elected every year. This also includes the chairman's and the vice chairman's positions.

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.

PHANTOM SHARE SCHEME
On 15 November 2017, a phantom share scheme was awarded to the Executive Board in SBS and executive employees in the SBS Group. The scheme is a cash-settled bonus scheme based on the development in the Company's share price. Phantom shares are allocated to every participating employee for each month they have been employed and up to and including March 2020 when the credit agreement with the SBS Group's banking institutions expires.



Exchange rate movements 2017

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 in Belid Lighting AB, Broen LAB A/S, E-Vet A/S, Herstal Gruppen A/S, Hornsyld Købmandsgaard A/S, Im. Stiholt A/S, MLD A/S, Summerbird A/S and 3L A/S.
Member of the Board of Directors in Jørgen Kruuse A/S, Ken A/S and Stiholt Holding A/S.
CEO in B&P Rådgivning, B&P Holding Aps, International Management Advice ApS and Stiholt Holding A/S.

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

John Staunsbjerg Dueholm (1951)

Vice Chairman
Elected the first time in 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, Holmris A/S, Hydrates Industries A/S, InterMail A/S, Jetpak AB, SSG A/S, SSG Group A/S and SSG Partners A/S.
Member of the Board of Directors in Globus Wine A/S and ProData Consult A/S.

This member is considered independent.

Lars Radoor Sørensen (1963)

Elected the first time in 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 in Puma SE.

This member is considered independent.

BOARD OF DIRECTORS

Pernille Wendel Mehl (1972)

Elected the first time in 2017
HD (A)

Primary qualifications
Commercial and digital business development
Strategic sale and marketing
Change management and performance culture

Managerial posts
CEO in Danske Lotteri Spil A/S
Vice chairman of Dansk Markedsføring

This member is considered independent.

Jytte Petersen (1957)

Elected the first time in 2012
Head of Payroll

Employee representative

Jan B. Pedersen (1959)

Elected the first time in 2002
Warehouse assistant

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
Executive MBA

Managerial posts
Member 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

ATTORNEY
Kromann Reumert
Sundkrogsgade 5
DK-2100 København

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
Knudseje Holding ApS
Knudsejevej 4
DK-9352 Dybvad

STOCK EXCHANGE ANNOUNCEMENTS 2017
27.03. Announcement of the financial statements for 2016, including the annual report for 2016
31.03. Notification of annual general meeting
27.04. General meeting
31.08. Interim report – first half 2017
15.11. Allocation of phantom shares to the Board of Directors and executive employees
30.11. Employee representative on the Board of Directors in SBS retires
30.11. Financial calendar 2018
04.12. SBS' expectations of 2017

STOCK EXCHANGE ANNOUNCEMENTS 2018
20.03. Announcement of the financial statements for 2017, including the annual report for 2017

FINANCIAL CALENDER 2018
16.03. Latest deadline for submitting proposals for the general meeting
20.03. Announcement of the financial statements for 2017, including the annual report for 2017
26.03. Notification of annual general meeting
30.04. Annual general meeting
29.08. Interim report
29.11. Financial calendar 2019

STATEMENT BY THE MANAGEMENT ON THE ANNUAL REPORT

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of Scandinavian Brake Systems A/S for 2017.

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 2017 and of the results of the Group's and the Company's operations and cash flows for the financial year 1 January – 31 December 2017.

In our opinion, the Management commentary 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, 20 March 2018

EXECUTIVE BOARD

Mads Bonde, CEO

Carsten Schmidt, CFO

BOARD OF DIRECTORS

Peter Eriksen Jensen, Chairman

John Staunsbjerg Dueholm, Vice Chairman

Lars Radoor Sørensen

Pernille Wendel Mehl

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 2017, which comprise an income statement, statement of comprehensive income, statement of financial position, 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 2017 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 2017 in accordance with the Danish Financial Statements Act as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Our opinion is consistent with our long-form audit report to the Audit Committee and the Board of Directors.

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" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

To the best of our knowledge, we have not provided any prohibited non-audit services as described in article 5(1) of Regulation (EU) no. 537/2014.

Appointment of auditor

After Scandinavian Brake Systems A/S' listing of shares on Nasdaq Copenhagen A/S, we were initially appointed as auditor of Scandinavian Brake Systems A/S on 2 May 1990. We have been reappointed annually by resolution of the general meeting for a total consecutive period of 28 years up until the financial year 2017.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the financial year 2017. These matters were addressed during our audit of the 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 our responsibilities described in the "Auditor's responsibilities for the audit of the financial statements" section, including in relation to the key audit matters below. Our audit included the design and performance of procedures to respond to our assessment of the risks of material misstatement of the 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 financial statements.

Equity, cash resources and financing

The Group's and the Parent Company's equity totals a negative DKK 165.9 million and a negative DKK 32.0 million, respectively at 31 December 2017. 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 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, statement of financial position and cash flow based on the 2018 budget and forecast for 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 2018-2019 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 deferred tax assets regarding temporary differences between the carrying amount and the tax base of assets and liabilities as well as tax loss carryforwards, etc. Recognised tax loss carryforwards totalled DKK 47.6 million at 31 December 2017. 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 2018 and forecast for 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 154.0 million at 31 December 2017, which corresponds to 35% 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 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 in the model just as we 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 financial statements does not cover the Management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management commentary and, in doing so, consider whether the Management commentary is materially inconsistent with the financial statements or our knowledge obtained 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 the work we have performed, we conclude that the Management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the Management's review.

Management's responsibilities for the 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 Moreover, Management is responsible for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Independent auditor's report
In preparing the financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the 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 financial statements
Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and

to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and can be considered material if it would be reasonable to expect that they, either individually or combined, could influence the economic decisions taken by users on the basis of the 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 misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or 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 Parent Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient and appropriate audit evidence regarding the financial information for the Group's entities or business activities to express an opinion on the consolidated financial statements. We are responsible for directing, supervising and conducting the audit of the Group. 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 internal control weaknesses identified during our audit.

We also provide a statement to those charged with governance to the effect that we have complied with relevant ethical requirements related to independence and disclose to them all relations and other matters that could reasonably be expected to impact our independence and, if relevant, related safeguards.

Based on the matters communicated to those charged with governance, we determine which matters were of most importance in our audit of the financial statements for the current period and therefore are 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, 20 March 2018

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR-nr. 30 70 02 28

Hans B. Vistisen
State Authorised Public Accountant
MNE-no.: mne23254

Torben Ahle Pedersen
State Authorised Public Accountant
MNE-no.: mne16611

INCOME STATEMENT

DKKm Notes	SBS GROUP 2017	SBS GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
Revenue	**735.0**	**769.7**	**25.7**	**23.3**
Cost of raw materials and consumables	-447.1	-441.3	-	-
Changes in inventories of finished goods and work in progress	2.6	-40.7	-	-
Other external costs	-114.9	-121.8	-9.6	-9.5
Staff costs	-114.4	-116.4	-20.4	-18.2
Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring)	**61.2**	**49.5**	**-4.3**	**-4.4**
Special items	-3.7	-10.9	-	-2.3
Operating profit/loss before depreciation, amortisation and impairment losses (EBITDA)	**57.5**	**38.6**	**-4.3**	**-6.7**
Depreciation, amortisation and impairment losses	-16.2	-19.2	-3.2	-6.4
Operating profit/loss (EBIT)	**41.3**	**19.4**	**-7.5**	**-13.1**
Impairment write-down and reversal of write-down regarding investments and receivables from subsidiaries	-	-	4.3	9.3
Dividend from group enterprise	-	-	5.0	24.9
Finance income	1.9	-	1.9	0.2
Finance costs	-23.4	-26.2	-12.5	-21.5
Profit/loss from continuing operations before tax	**19.8**	**-6.8**	**-8.8**	**-0.2**
Tax on profit/loss for the year	-0.6	3.1	2.0	4.2
Profit/loss from continuing operations before tax	**19.2**	**-3.7**	**-6.8**	**4.0**
Profit/loss from discontinuing operations after tax	0.5	10.0	-	14.9
Profit/loss for the year	**19.7**	**6.3**	**-6.8**	**18.9**
Basic earnings per share (EPS Basic)	6.1	2.0		
Diluted earnings per share (EPS-D)	6.1	2.0		
Profit/loss from continuing operations per share (EPS Basic)	6.0	-1.2		
Diluted profit/loss from continuing operations per share (EPS-D)	6.0	-1.2		

Proposed profit appropriation:

Dividends DKK 0 per share (2016: DKK 0 per share)	-	-
Retained earnings	-6.8	18.9
Total	**-6.8**	**18.9**

STATEMENT OF COMPREHENSIVE INCOME

DKKm Notes		SBS GROUP 2017	SBS GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
	Profit/loss for the year	**19.7**	**6.3**	**-6.8**	**18.9**
	Other comprehensive income				
	Items that can be reclassified to the income statement:				
	Foreign exchange translation adjustments of foreign subsidiaries	0.1	-0.2	-	-
	Value adjustments of hedging instruments:				
	Value adjustments for the year	3.7	3.1	3.7	3.1
	Value adjustment transferred to cost of sales	-3.5	-0.7	-	-
	Value adjustment transferred to finance costs	-2.7	-2.8	-2.7	-2.8
	Interest swap *	-	9.6	-	9.6
	Tax on other comprehensive income	0.6	-2.2	-0.3	-2.3
	Other comprehensive income after tax	**-1.8**	**6.8**	**0.7**	**7.6**
	Total comprehensive income	**17.9**	**13.1**	**-6.1**	**26.5**
	Appropriation:				
	Shareholders of Scandinavian Brake Systems A/S			-6.1	26.5
				-6.1	**26.5**

* It has been assessed that part of the interest rate swap relates to excess hedging, and therefore this part has been reclassified in 2016 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

DKKm Notes	SBS GROUP 31.12.2017	 31.12.2016	PARENT COMPANY 31.12.2017	 31.12.2016
NON-CURRENT ASSETS				
Intangible assets				
Goodwill	12.5	12.5	-	-
Patents, rights and trademarks	1.5	1.5	-	-
Development projects	11.7	9.2	-	-
Software	6.2	3.9	5.4	3.0
	31.9	27.1	5.4	3.0
Property, plant and equipment				
Land and buildings	60.7	56.3	26.0	26.6
Plant and machinery	20.7	20.2	-	-
Fixtures and fittings, tools and equipment	9.5	9.4	1.1	0.9
Property, plant and equipment under construction	-	0.2	-	-
	90.9	86.1	27.1	27.5
Other non-current assets				
Investments in subsidiaries	-	-	236.1	236.1
Securities	0.1	0.1	0.1	0.1
Deferred tax	47.6	46.9	2.0	1.0
	47.7	47.0	238.2	237.2
Total non-current assets	**170.5**	**160.2**	**270.7**	**267.7**
CURRENT ASSETS				
Inventories	154.0	149.8	-	-
Receivables	119.9	120.2	12.5	10.6
Income taxes receivable	0.1	1.0	-	-
Cash	0.1	0.1	-	-
	274.1	271.1	12.5	10.6
Assets held for sale	-	9.9	-	9.9
Total current assets	**274.1**	**281.0**	**12.5**	**20.5**
TOTAL ASSETS	**444.6**	**441.2**	**283.2**	**288.2**

STATEMENT OF FINANCIAL POSITION – EQUITY AND LIABILITIES

DKKm Notes		SBS GROUP 31.12.2017	SBS GROUP 31.12.2016	PARENT COMPANY 31.12.2017	PARENT COMPANY 31.12.2016
	EQUITY				
	Share capital	32.1	32.1	32.1	32.1
	Hedging reserve	-4.7	-2.8	-3.3	-4.0
	Translation reserve	1.6	1.5	-	-
	Revaluation reserve	10.6	10.6	10.1	10.1
	Retained earnings	-205.5	-225.2	-70.9	-64.1
	Total equity	**-165.9**	**-183.8**	**-32.0**	**-25.9**
	LIABILITIES				
	Non-current liabilities				
	Provisions for losses re. subsidiaries	-	-	89.5	93.8
	Provisions	10.2	11.5	-	-
	Credit institutions, etc.	412.7	439.6	20.7	22.4
	Trade and other payables	-	-	50.0	75.0
	Total non-current assets	**422.9**	**451.1**	**160.2**	**191.2**
	Current liabilities				
	Credit institutions, etc.	16.7	23.1	2.4	3.2
	Trade and other payables	169.8	141.3	152.6	113.4
	Provisions	1.1	3.2	-	-
		187.6	167.6	155.0	116.6
	Liabilities re. assets held for sale	-	6.3	-	6.3
	Total current liabilities	**187.6**	**173.9**	**155.0**	**122.9**
	Total liabilities	**610.5**	**625.0**	**315.2**	**314.1**
	TOTAL EQUITY AND LIABILITIES	**444.6**	**441.2**	**283.2**	**288.2**

STATEMENT OF CHANGES IN EQUITY

DKKm

SBS GROUP

	Share-capital	Reserve for hedging-trans-actions	Reserve for foreign-exchange-rate ajd.	Reserve for revalua-tion	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
Anden totalindkomst						
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 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**

* 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 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 had put its property in Holstebro up for sale, and consequently, the mortgage debt relating to this property was expectedly also being paid off soon.

Based on the above, it was assessed that a part of the interest rate swap related to excess hedging as the nominal value of the interest rate swap exceeded the nominal value of the remaining mortgage debt. The proportionate share of fair value of the interest rate swap, which is no longer included in a hedge, totalled DKK 9.6 million before tax (DKK 7.5 million after tax) and was 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 2017. The remaining negative fair value of the interest rate swap of DKK 4.2 million before tax (DKK 3.3 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.

STATEMENT OF CHANGES IN EQUITY

DKKm

SBS GROUP

	Share-capital	Reserve for hedging-trans-actions	Reserve for foreign-exchange-rate adj.	Reserve for revalua-tions	Retained earnings	Total
Equity at 1.1.2017	**32.1**	**-2.8**	**1.5**	**10.6**	**-225.2**	**-183.8**
Total comprehensive income for 2017						
Profit for the year	-	-	-	-	19.7	19.7
Other comprehensive income						
Foreign exchange adjustments on translation of foreign subsidiaries	-	-	0.1	-	-	0.1
Value adjustments of hedging instruments:						
Value adjustment for the period	-	3.7	-	-	-	3.7
Value adjustments transferred to cost of sales	-	-3.5	-	-	-	-3.5
Value adjustments transferred to finance costs	-	-2.7	-	-	-	-2.7
Estimated tax on other comprehensive income	-	0.6	-	-	-	0.6
Total other comprehensive income	**-**	**-1.9**	**0.1**	**-**	**-**	**-1.8**
Comprehensive income for the period	**-**	**-1.9**	**0.1**	**-**	**19.7**	**17.9**
Equity at 31.12.2017	**32.1**	**-4.7**	**1.6**	**10.6**	**-205.5**	**-165.9**

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

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 from the translation of financial statements of foreign entities 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

DKKm

PARENT COMPANY

	Share-capital	Reserve for hedging-trans-actions	Reserve for revalua-tions	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 finance costs	-	-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**

* 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 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 had put its property in Holstebro up for sale, and consequently, the mortgage debt relating to this property was expectedly also being paid off soon.

Based on the above, it was assessed that a part of the interest rate swap related to excess hedging as the nominal value of the interest rate swap exceeded the nominal value of the remaining mortgage debt. The proportionate share of fair value of the interest rate swap, which is no longer included in a hedge, totalled DKK 9.6 million before tax (DKK 7.5 million after tax) and was 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 2017. The remaining negative fair value of the interest rate swap of DKK 4.2 million before tax (DKK 3.3 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.

STATEMENT OF CHANGES IN EQUITY

DKKm

PARENT COMPANY

	Share-capital	Reserve for hedging-trans-actions	Reserve for revalua-tions	Retained earnings	Total
Equity at 1.1.2017	**32.1**	**-4.0**	**10.1**	**-64.1**	**-25.9**
Total comprehensive income for 2017					
Profit for the year	-	-	-	-6.8	-6.8
Other comprehensive income					
Value adjustments of hedging instruments:					
Value adjustment for the period	-	3.7	-	-	3.7
Value adjustments transferred to finance costs	-	-2.7	-	-	-2.7
Tax on other comprehensive income	-	-0.3	-	-	-0.3
Total other comprehensive income	**-**	**0.7**	**-**	**-**	**0.7**
Comprehensive income for the period	**-**	**0.7**	**-**	**-6.8**	**-6.1**
Equity at 31.12.2017	**32.1**	**-3.3**	**10.1**	**-70.9**	**-32.0**

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

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

DKKm Notes		SBS GROUP 2017	SBS GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
	Profit/loss from continuing operations before tax	19.8	-6.8	-8.8	-0.2
	Amortisation and impairment losses	16.2	19.2	3.2	6.4
1	Other adjustments	22.5	22.5	9.9	10.7
2	Changes in working capital	22.1	-6.3	37.3	26.6
	Cash generated from operations (operating activities)	80.6	28.6	41.6	43.5
	Finance income received	-	-	-	-
	Finance costs paid	-22.8	-16.2	-12.5	-11.9
	Corporation tax paid during the financial year (net)	-2.4	-4.5	-	-
	Cash flow from operating activities	**55.4**	**7.9**	**29.1**	**31.6**
	Acquisition of intangible assets	-8.7	-5.8	-3.3	-1.2
	Acquisition of property, plant and equipment	-15.8	-9.9	-0.6	-0.6
	Sale of property, plant and equipment	0.1	0.6	-	-
	Cash flow from investing activities	**-24.4**	**-15.1**	**-3.9**	**-1.8**
	Raising and repayment of non-current payables	-33.3	21.3	-2.5	-4.0
	Raising and repayment of intra-group debt	-	-	-25.0	-25.0
	Cash flow from financing activities	**-33.3**	**21.3**	**-27.5**	**-29.0**
	Cash flow from discontinuing operations	2.3	-14.2	2.3	-0.8
	Cash flows for the year	**-**	**-0.1**	**-**	**-**
	Liquid funds at the beginning of the period	0.1	0.2	-	-
	Liquid funds at the end of the period	**0.1**	**0.1**	**-**	**-**
1	**Adjustments**				
	Finance income	-1.9	-	-1.9	-0.2
	Finance costs	23.4	26.2	12.5	21.5
	Write-down on investments in and amounts owed by subsidiaries	-	-	-4.3	-9.3
	Other adjustments	1.0	-3.7	3.6	-1.3
		22.5	**22.5**	**9.9**	**10.7**
2	**Changes in working capital**				
	Changes in trade payables, etc.	1.2	-16.9	-1.9	2.9
	Changes in inventories	-4.2	30.0	-	-
	Change in trade payables and other liabilities	25.1	-19.4	39.2	23.7
		22.1	**-6.3**	**37.3**	**26.6**

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

NOTES

CONTENTS

NOTES

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 2017 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 2017 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 20 March 2018, the Board of Directors and the Executive Board have discussed and approved the annual report of Scandinavian Brake Systems A/S for 2017. The annual report will be presented to the shareholders of Scandinavian Brake Systems A/S for approval at the annual general meeting on 30 April 2018.

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.

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 commentary 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 2017.

The new standards and interpretations did not affect recognition and measurement in 2017, and consequently, they did not affect the results and diluted earnings per share.

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 are 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 on revaluations

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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 2017 and 2016 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 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 paid for an entity 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 terms, such 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.

Where, at the date of acquisition, the identification or measurement of acquired assets, liabilities or contingent liabilities or the determination of the consideration is associated with uncertainty, 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 rate at the transaction date and the rate at the date of payment are recognised in profit or loss 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

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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.

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.

STATEMENT OF COMPREHENSIVE INCOME

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.

Phantom share scheme (cash-settled bonus scheme)
The value of services received in exchange for the awarded phantom share scheme (cash-settled bonus scheme) is measured at the fair value of the phantom share scheme. The fair value is measured on initial recognition at the grant date and is recognised in the income statement under staff costs over the period during which final right of cash bonus is earned.

On subsequent recognition, the fair value of the phantom shares is measured at each end of the reporting periods and at final settlement, and any changes in the value of the phantom shares are recognised in the income statement under staff costs in proportion to the lapsed part of the period during which the employee earns final right of cash bonus. The counter entry is recognised under liabilities.

On initial recognition of the phantom shares, an estimate is made of the cash bonus that the employee is expected to earn a right to according to the vesting conditions. That estimate is subsequently revised for changes in the number of phantom shares expected to vest so that the total recognition is based on the actual number of phantom shares.

Thereby, total costs in the income statement over the entire life of the phantom share scheme equals the actually settled cash

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

bonus. The fair value of granted phantom shares is estimated using an option pricing model (Black-Scholes model) taking into account the terms and conditions upon which the phantom shares were granted.

Other external costs
Other external costs include costs relating to the company's primary activity that are incurred during the year, including costs for distribution, sales, marketing, administration, premises, bad debts, lease payments on operating leases, etc.

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.

Financial income and expenses
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 lease liabilities, as well as surcharges and allowances under the on-account tax scheme and fair value adjustments 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.

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 5-10 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 5-10 years.

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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, tools 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 in 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 indications of impairment annually, initially before the end of the acquisition year. 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 profit and loss 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.

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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 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 on 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, 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 labour 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 year is disclosed as a separate 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 from the translation of financial statements of foreign entities 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.

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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

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.

Financial liabilities also include 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.

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

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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 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.

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 comprises cash funds.

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

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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, year-end
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	Share price at year end
	BVPS

Earnings per share (EPS Basic) 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".

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

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

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 22-23.

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 and the disposal of the activities in 2016.

The Group's and the Parent Company's equity totals a negative DKK 165.9 million and a negative DKK 32.0 million, respectively at 31 December 2017.

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 30 April 2018. 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 foreseeable future.

Liquidity and financing
Based on the business plan for 2017-2019, the Group entered into a credit agreement with its bankers in March 2017 according to which, the Group's expected capital requirements are covered until 1 April 2020 when the agreement will be renegotiated. 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 two years.

The 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, statement of financial position 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 2017 regarding DPF Svendborg A/S in the amount of DKK 89.5 million at 31 December 2017.

Based on the group budget for 2018, 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 2018.

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 2017 is specified as follows:

DKKm	**2017**	**2016**
Cash	0.1	0.1
Undrawn credit facilities	37.0	26.8
Capital resources at 31 December	**37.1**	**26.9**

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 47.6 million at 31 December 2017 (2016: DKK 46.9 million) which are specified as follows:

DKKm	
Temporary differences between the carrying amount and the tax base of assets	38.1
Temporary differences between the carrying amount and the tax base of provisions and liabilities	3.2
Tax loss carryforwards	53.9
Deferred tax assets (before write-down)	**95.2**
Non-capitalised deferred tax assets (primarily deferred tax assets allowed for carryforward)	-47.6
Deferred tax assets at 31 December 2017	**47.6**

Based on the business plan for 2017-2019 and expectations of the coming years, group management has assessed the Group's deferred tax assets at 31 December 2017.

According to group management, the utilisation of the deferred tax asset of DKK 41.3 million at 31 December 2017 (2016: DKK 37.8 million) regarding the temporary difference between the carrying amount and the tax base of assets and liabilities 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 2017.

As to the deferred tax asset regarding tax losses allowed for carryforward, group management has assessed that a deferred tax asset of DKK 6.3 million can be recognised at 31 December 2017 (2016: DKK 9.1 million), based on the tax profits expected in the joint taxation unit within the coming 1-2 years.

The Group's deferred tax asset that relates to SBS France SAS amounted to DKK 1.6 million at 31 December 2017 (2016: DKK 2.0 million).

The Group's unrecognised tax assets then totalled DKK 47.6 million at 31 December 2017 compared to DKK 52.5 million at 31 December 2016.

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 2017, inventory write-downs totalled DKK 8.6 million against DKK 7.3 million at 31 December 2016.

DKKm

NOTE 3 SEGMENT INFORMATION

Activities

SBS GROUP

	SBS Automotive		SBS Friction		Other segments incl. eliminations *		Reportable segments Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**	**2017**	**2016**
Revenue for external customers	604.9	647.2	130.1	122.5	-	-	**735.0**	**769.7**
EBITDA recurring	41.2	32.5	24.3	21.7	-4.3	-4.7	**61.2**	**49.5**
Depreciation and amortisation	-4.4	-5.2	-8.6	-7.7	-3.2	-6.3	**-16.2**	**-19.2**
Operating profit	33.1	18.9	15.7	14.0	-7.5	-13.5	**41.3**	**19.4**
Finance income and finance costs (net)	-4.7	-4.1	-2.0	-1.5	-14.8	-20.6	**-21.5**	**-26.2**
Profit/loss before tax	28.5	14.8	13.7	12.5	-22.4	-34.1	**19.8**	**-6.8**
Profit/loss from continuing operations	20.9	8.0	10.7	6.8	-12.4	-18.5	**19.2**	**-3.7**
Segment assets	378.3	383.8	135.4	120.6	-69.1	-63.2	**444.6**	**441.2**
Capital expenditure	7.1	2.7	8.0	6.8	0.7	0.5	**15.8**	**10.0**
Segment liabilities	386.5	381.4	78.9	77.4	145.1	166.2	**610.5**	**625.0**
Cash flow from operating activities	54.9	7.9	17.6	15.3	-17.1	-15.3	**55.4**	**7.9**
Cash flow to investing activities	-7.5	-2.3	-13.0	-10.9	-3.9	-1.9	**-24.4**	**-15.1**
Cash flow from financing activities	-8.7	-28.5	-6.0	-1.0	-18.6	50.8	**-33.3**	**21.3**
Cash flow from discontinuing operations	-	-	-	-	2.3	-14.2	**2.3**	**-14.2**
Total free cash flows	**38.7**	**-22.9**	**-1.4**	**3.4**	**-37.3**	**19.4**	**-**	**-0.1**

* The item comprises the Group's shared service function comprising group management, finance and other group-related specialist functions. Moreover, DPF Svendborg A/S is part thereof. The entity had no activities in 2017 and comprises only finance income and finance costs, tax and liabilities.

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.

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 wear 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.

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.

DKKm

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		SBS Group Total	
	2017	**2016**	**2017**	**2016**	**2017**	**2016**
Revenue, external customers in Denmark	44.1	48.7	-	-	44.1	48.7
Revenue, external customers abroad	586.9	616.6	104.0	104.4	690.9	721.0
Revenue, see income statement					**735.0**	**769.7**
Non-current segment assets in Denmark	79.0	73.6	-	-	**79.0**	**73.6**
Non-current segment assets abroad	43.8	39.6	-	-	**43.8**	**39.6**
Non-current assets, see the statement of financial position**					**122.8**	**113.2**
Capital expenditure	15.8	10.0	-	-	**15.8**	**10.0**

** 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 32 and from the statement of financial position on pages 34-35.

GROUP

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