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-group.dk – Danish version – Årsrapport 2018.

Extract of

ANNUAL REPORT 2018

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 revenue was DKK 682 million against DKK 735 million in 2017. Revenue was slightly below the latest expectations of DKK 685-710 million.

Operating profit of the SBS Group before depreciation, amortisation and impairment losses (EBITDA recurring) totalled DKK 63 million against DKK 61 million in 2017. The results are at the high end of the latest published expectations of EBITDA before special items of DKK 55-65 million. The improvements relate to SBS Automotive, which increased its EBITDA margin (recurring) from 6.8% to 8.2%. SBS Friction's EBITDA-margin was 16.9% (18.7%) due to slightly decreasing sales and investments in future growth.

On 20 November 2018, the SBS Group management initiated a strategic review of the SBS Automotive division. The purpose being to clarify how SBS Automotive could gain optimum traction taking into consideration the development on the free European automotive aftermarket. The analysis is expected to be completed within the first six months of 2019.

In 2017, the SBS Group concluded a credit agreement with the Group's banking institutions. In December 2018, amendments were made to the agreement, but the agreement is still in force until April 2020 and will be renegotiated before expiry. Focusing on its earnings as basis for reducing net interest-bearing debt, the Group succeeded in reducing its debt in 2018 for the third year in a row. Since 2012, the SBS Group's net interest-bearing debt, including subordinated loan capital was reduced by approx. 40%.

SBS AUTOMOTIVE

- Focus on earnings, EBITDA recurring increased by 11%
- Focus on business development:
  - New geographical markets i.a. in the Middle East and distributor agreement in Italy for the NK programme
  - Growth in partnership agreements in Germany
  - New agreements on private label supplies to leading OES/aftermarket distributors
  - Expansion of the product portfolio with new product groups
  - Streamlining of supply chain and sourcing platform

SBS FRICTION

- Revenue and EBITDA recurring slightly lower than in the record-year 2017
- Focus on business development within the OEM as well as the aftermarket:
  - Global market development assigning higher priority to the Asian markets
  - Expansion of product portfolio for the aftermarket and racing segment
  - New OEM projects realised and growth pipeline for new projects
  - Strengthening of the R&D function in particular in relation to the OEM market efforts
  - Continuous production and logistics improvements

EQUITY, CASH RESOURCES AND FINANCING

The reduction of the Group's net interest-bearing debt continued in 2018 – from DKK 429 million at 31/12/2017 to DKK 403 million at 31/12/2018.

Equity developed from a negative DKK 166 million at 31/12/2017 to a negative DKK 150 million at 31/12/2018.

OUTLOOK FOR 2019

The SBS Group expects to generate revenue in the range DKK 680-700 million.

Operating profit is again expected to increase in 2019. EBITDA recurring is expected to be in the range DKK 70-80 million. The implementation of IFRS 16 alone is expected to contribute with approx. DKK 7 million.

FINANCIAL HIGHLIGHTS

63 MILLION DKK

EBITDA (RECURRING)

The SBS Group's EBITDA (recurring) increased by 2% - from DKK 61.2 million to DKK 62.5 million.

9,2 %

EBITDA (RECURRING) MARGIN

EBITDA recurring margin increased by 11% from 8.3% to 9.2%.

-26 MILLION DKK

REDUCTION OF NET INTEREST-BEARING DEBT

Reduction of net interest-bearing debt from DKK 429 million to DKK 403 million.

44 MILLION DKK

CASH FLOW FROM OPERATING ACTIVITIES

Focus on net working capital.

FINANCIAL HIGHLIGHTS

DKKm Key figures	2018	2017	2016	2015	2014
Revenue	682.4	735.0	769.7	766.2	1,013.9
Index (2014 = 100)	67.3	72.5	75.9	75.6	100.0
Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring)	62.5	61.2	49.5	54.8	65.7
Profit /loss on the sale of activity	–	–	–	–	66.6
Other special items (reorganisation, etc.)	-5.3	-3.7	-10.9	-11.1	-20.2
Operating profit before depreciation, amortisation and impairment losses (EBITDA)	57.2	57.5	38.6	43.7	112.1
Depreciation, amortisation and impairment losses	-15.8	-16.2	-19.2	-14.7	-15.7
Operating profit (EBIT)	41.4	41.3	19.4	29.0	96.4
Finance income and finance costs (net)	-23.4	-21.5	-26.2	-17.6	-3.9
Profit/loss from continuing operations before tax	18.0	19.8	-6.8	11.4	88.2
Profit/loss from continuing operations after tax	13.5	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)	13.5	19.7	6.3	-171.9	61.7
Non-current assets	170.8	170.5	160.2	164.2	331.7
Current assets	294.7	274.1	281.0	299.0	275.8
Total assets	465.5	444.6	441.2	463.2	607.5
Share capital	32.1	32.1	32.1	32.1	32.1
Equity	-150.2	-165.9	-183.8	-196.8	-26.3
Non-current liabilities	387.8	422.9	451.1	460.5	73.8
Current liabilities	227.9	187.6	173.9	199.5	560.0
Net working capital (NWC)	141.1	175.2	188.7	186.0	189.1
Net interest-bearing debt	403.4	429.3	468.9	484.4	440.9
Average number of employees	253	260	283	316	443
Revenue per employee	2.7	2.8	2.7	2.4	2.3
Cash flow from operating activities	44.3	55.4	7.9	29.1	-13.8
Cash flow to investing activities, net	-18.4	-15.8	-15.1	-14.4	188.9
Hereof invested in property, plant and equipment	12.0	15.8	9.9	11.5	11.3
Cash flow from financing activities	-25.9	-39.6	21.3	9.4	-175.2
Cash flow from discontinuing operations	–	–	-14.2	-24.0	–
Total cash flows for the year	–	–	-0.1	0.1	–

Financial ratios	2018	2017	2016	2015	2014
Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring)-margin	9.2	8.3	6.4	7.2	6.5
EBITDA margin	8.4	7.8	5.0	5.7	11.1
EBIT margin	6.1	5.6	2.5	3.8	9.5
Return on invested capital (ROIC excl. GW)	21.2	20.3	8.6	11.7	27.5
Return on equity in % (ROE)	I/A	I/A	I/A	I/A	I/A
Equity ratio	-32.3	-37.3	-41.6	-42.5	-4.3
Earnings per share in DKK (EPS Basic)	4.2	6.1	2.0	-53.6	19.2
Net asset value per share in DKK (BVPS)	-46.8	-51.7	-57.3	-61.3	-8.2
Price/net asset value	-0.4	-0.5	-0.5	-0.5	-5.0
Market price at year end	18.5	26.5	26.7	28.8	41.0

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 53.

Financial highlights for 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 53.

SBS GROUP STRATEGIC DEVELOPMENT

For several years, the SBS Group's primary strategic focus was to ensure a sustainable, financial and commercial basis for the Group and its entities.

This has to a wide extent been fulfilled by the sale of the loss-making particulate filter business Notox in 2016, through credit agreements entered into with the SBS Group's bankers to ensure operations and by focusing on earnings as basis for reducing the Company's net interest-bearing debt and re-establish the Company's equity.

Management believes that the SBS Group is at an advanced stage of this process so that the Group to a higher degree could direct focus on development and future positioning of the Group's entities. The two business areas, SBS Automotive and SBS Friction, operate in markets that deviate considerably in terms of conditions and dynamics. Therefore, it may also be necessary to differentiate the strategic development scenarios for the two divisions.

BUSINESS DEVELOPMENT – SBS AUTOMOTIVE

The automotive aftermarket in Europe undergoes considerable changes these years. The consolidation of the free aftermarket is accelerating. Capital chains and international operators are making acquisitions in the industry and small wholesalers find conditions difficult. Customer behaviour is also changing with internet sale of spare parts still on the increase. To this should be added the technological development. Vehicles have become digitalised and are expected to become self-driving in the long run. In the long term, the classic internal combustion engine will come under pressure and more clean technologies will be developed.

In November 2018, the SBS Group management decided to launch a strategic review for purposes of clarifying whether SBS Automotive could profit from participating actively in the consolidation process on the market to be well placed for the changing business conditions.

The analysis of the next steps in developing the division is still ongoing and is expected to be finalised prior to the publication of the interim financial statements for the first six months of 2019.

BUSINESS DEVELOPMENT – SBS FRICTION

The basic commercial conditions under which SBS Friction and SBS Automotive operate are different. SBS Friction is a manufacturing company with a strong brand and growth potential at the aftermarket, but also within the OEM segment, i.a. vehicle manufacturer and their sub-suppliers. Moreover, the Company operates in a far more stable niche market, where structural reorganisations are less notable and where SBS Friction is positioned as a far larger player within its business areas than its sister division.

The SBS Group management is convinced that SBS Friction's strengths within development, production and sale in combination with the market's structure and potential allow of developing the Company as an independent entity. The strategy plan is based thereon and lays down measures to promote growth on the aftermarket as well as the OEM market.

DEBT REDUCTION AND RE-ESTABLISHMENT OF EQUITY

In addition to focusing on the divisions' business development, the primary strategic focus is to ensure a long-term, sustainable and stable financial basis for the SBS Group. Net interest-bearing debt was reduced again this year (6%) and since 2012, is has been reduced by 40%. Interest-bearing debt still makes up a considerable part of the balance sheet, but compared with earnings (EBITDA recurring), the key figure decreased from 11.8 to 6.5 since 2012. Equity in the year improved by 9.5%, but it still takes a while until equity has been re-established.

Therefore, the Group will in 2019 focus in full on improving EBITDA to ensure debt reduction and re-establishment of equity to the extent and at the pace desired. This assumes a tight cost control and optimisation of operations taking into consideration, however, investments and measures to promote growth.

OPTIMISATION OF OPERATIONS

The optimisation strategy is primarily directed at three areas:

Supply chain

SBS Group entities are continuously optimising the supply chain. This plays an important role in particular for the distribution entity SBS Automotive. Efforts are in particular directed at optimising the Company's comprehensive sourcing platform, the internal inventory and logistics flow as well as improving supply concepts, i.a. based on digital trading solutions.

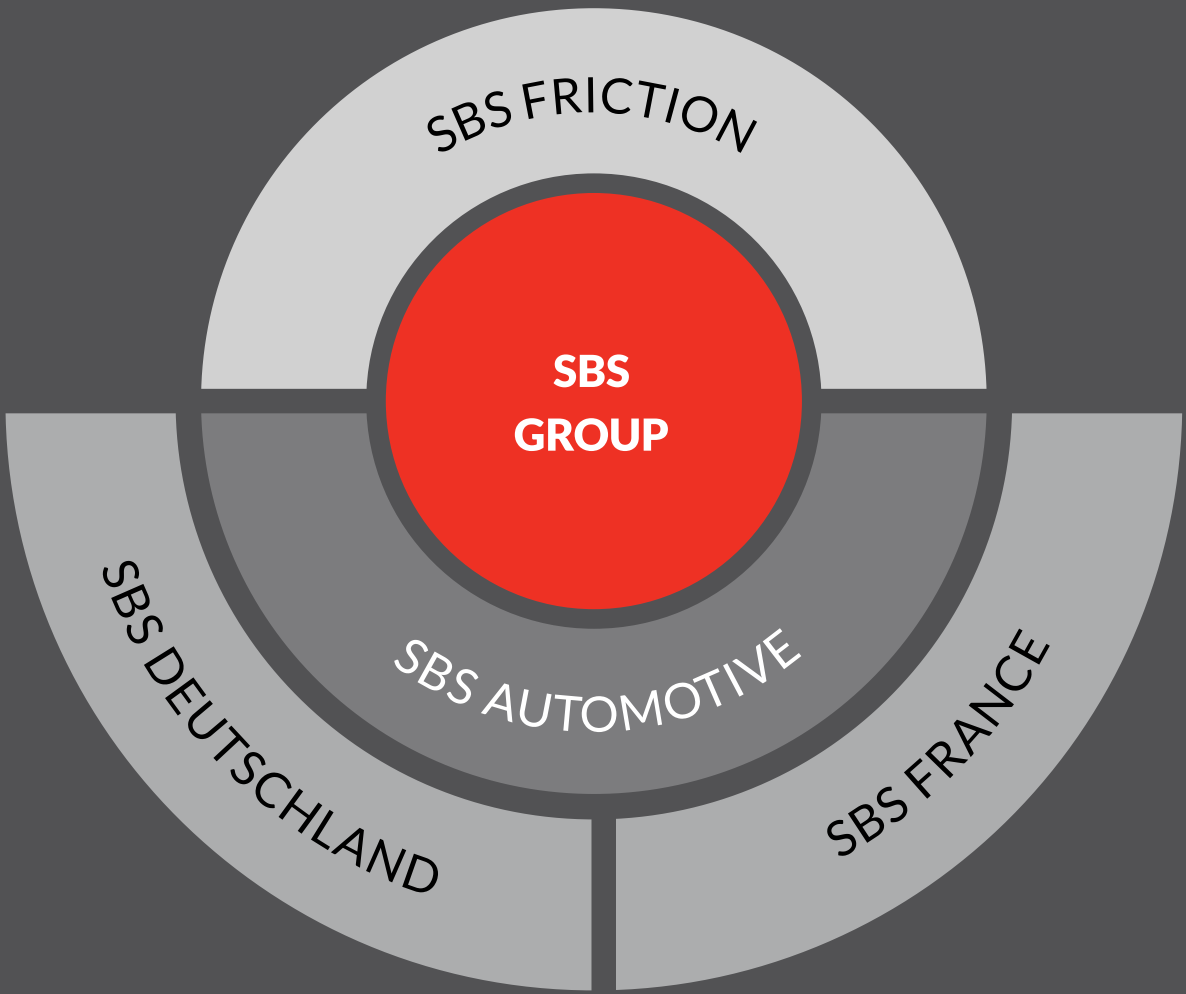
Automation and lean

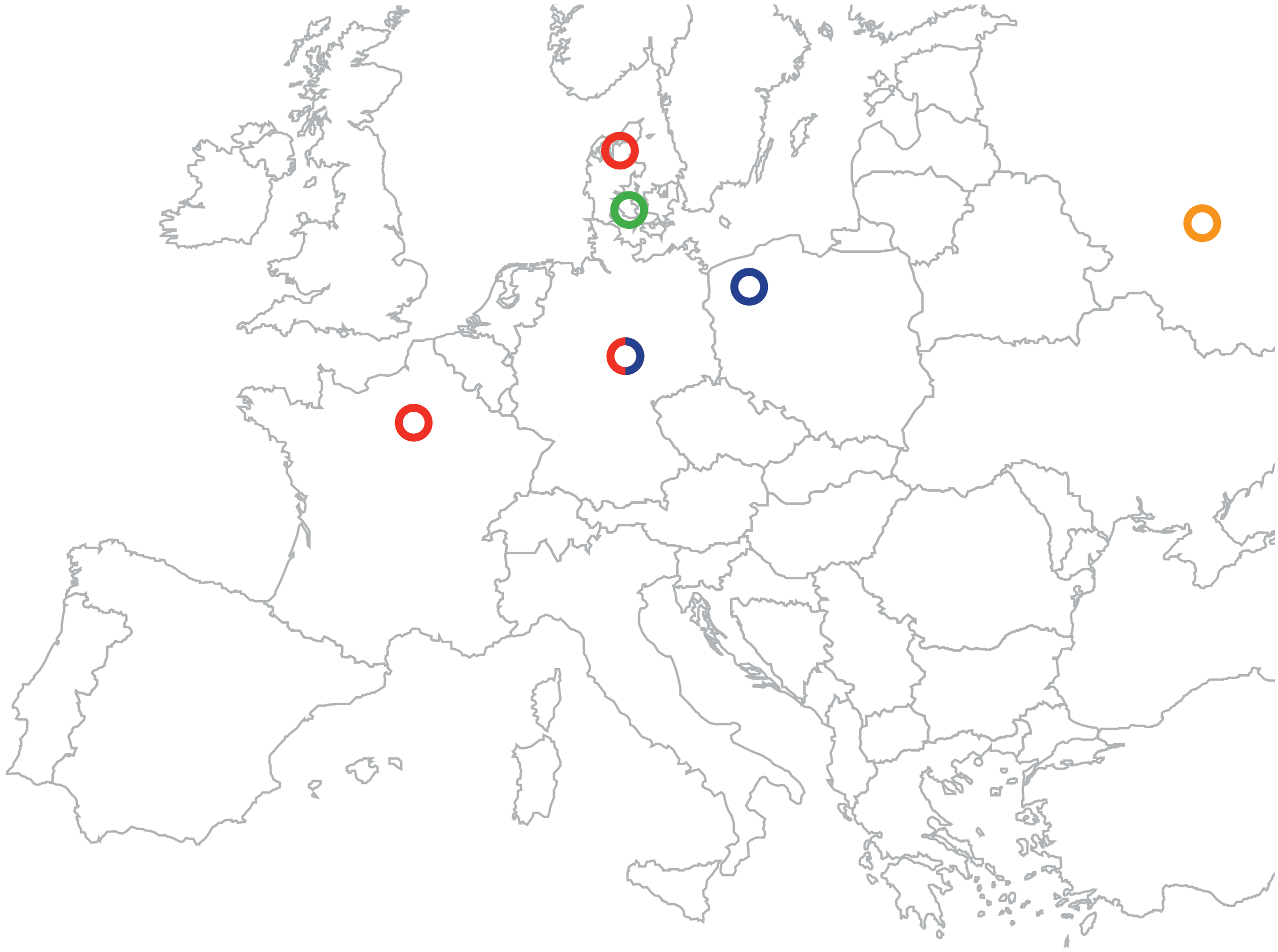
In the production entity SBS Friction, optimisation is primarily based on continuous automations of the entity's production lines in the form of new production technology and process innovation as well as intense use of lean in the working processes. It is a continuous development with successive improvements that is to ensure our competitive power taking into consideration our customers' quality requirements.

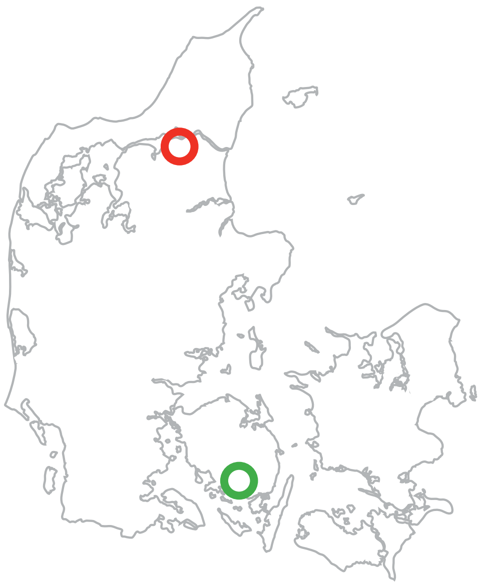
Digitalisation and IT

Digitalisation is a central, strategic key action area. In Q4 2018, the SBS Group initiated the implementation of a new IT platform based on the newest system technology within the area. The new platform will be rolled out successively and is expected to be fully implemented in all entities by the end of Q4 2020. In this relation, both divisions are working with new digitalised tools for handling product data, trading systems and communication, etc.

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

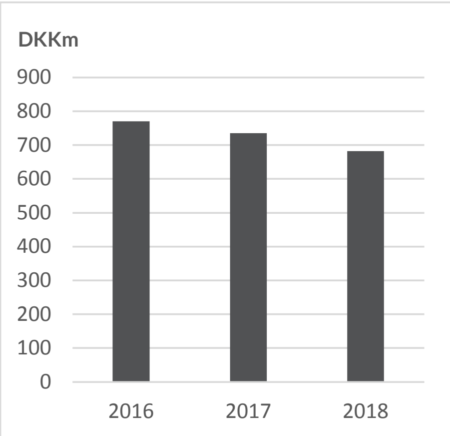
SBS AUTOMOTIVE

Sales office:
Moscow, RU

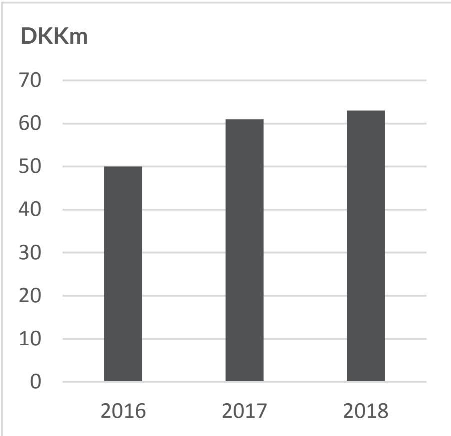
* Logistics operations in cooperation with partner.

FINANCIAL REVIEW AND EXPECTATIONS FOR 2019

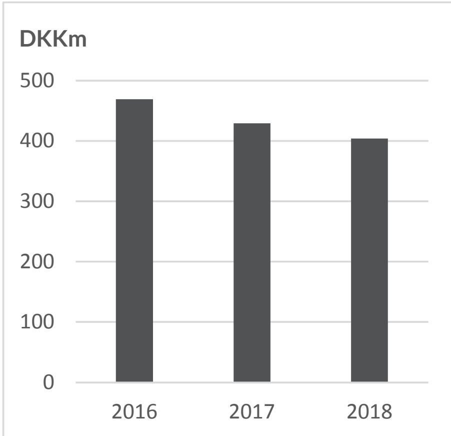
SBS GROUP REVENUE



SBS GROUP EBITDA



NET INTEREST-BEARING DEBT



DEVELOPMENT AND RESULTS OF OPERATION

SBS Group revenue was DKK 682 million against DKK 735 million in 2017.

Revenue performance of the divisions

DKKm	2018	2017
SBS Automotive	557	605
SBS Friction	125	130
SBS Group	**682**	**735**

SBS Automotive reported revenue of DKK 557 million in 2018 against DKK 605 million in 2017.

Revenue performance reflects comprehensive regional differences with growth within some markets and downturn within others as well as de-selection of customers on which earnings are low.

SBS Friction realised revenue of DKK 125 million in 2017 against DKK 130 million in the record-year 2017.

The slight decrease in revenue is attributable to a cold spring, which affected the driving season for motorcycles and thereby the purchase of spare parts negatively. The spring season implied stock-building in the distribution chain, which weakened demand in the last six months of 2018. Despite the decrease, revenue is still at a historically high level.

EBITDA performance of the divisions

DKKm	2018	2017
SBS Automotive	46	41
SBS Friction	21	24
Group functions	-4	-4
EBITDA recurring	**63**	**61**
Other special items	-6	-3
EBITDA SBS Group	**57**	**58**

SBS Automotive realised EBITDA recurring of DKK 46 million in 2018 against DKK 41 million in 2017.

Despite decreasing sales, the Group succeeded in increasing its operating income though improvements in the supply chain as well as continued cost reductions.

SBS Friction realised EBITDA recurring of DKK 21 million in 2018 against DKK 24 million in 2016.

Development mainly relates to the development in revenue, but also to increased costs for preparing the Company's future strategy.

For further comments on the development in the divisions, please refer to pages 12-19 in the Management commentary.

SBS Group's EBITDA recurring was DKK 63 million against DKK 61 million in 2017.

Special items totalled DKK 6 million in 2018 against DKK 3 million in 2017 and primarily relate to reorganisations in line with the original strategy, where focus was on improving EBITDA going forward.

Depreciation, amortisation and impairment losses totalled a negative DKK 16 million against a negative DKK 16 million in 2017.

EBIT then totalled DKK 41 million against DKK 41 million in 2017.

Finance income and finance costs totalled a negative DKK 23 million against a negative DKK 22 million in 2017.

Profit from continuing operations before tax then totals DKK 18 million against DKK 20 million in 2017.

Profit for the year totalled DKK 14 million against DKK 20 million in 2017.

CHANGES IN STATEMENT OF FINANCIAL POSITION

DKKm	2018	2017
Non-current assets	171	171
Current assets	295	274
Non-current liabilities	388	423
Current liabilities	228	188
Equity	-150	-166

Total assets amounted to DKK 466 million at 31 December 2018 compared to DKK 445 million on the same date the year before.

Non-current assets totalled DKK 171 million at year-end 2018 compared to DKK 171 million at year-end 2017.

Current assets totalled DKK 295 million at year-end 2018 compared to DKK 274 million at year-end 2017. Current assets are primarily affected by a high level of inventories derived from the strategic changes to sourcing and the other delivery terms from new suppliers. The high level of inventories did not have a negative impact on net working capital, as corresponding financing was provided by the new suppliers. Consequently, the strategy also improved consolidated net working capital in 2018.

Non-current liabilities totalled DKK 388 million in 2018 compared to DKK 423 million in 2017.

The SBS Group's net interest-bearing debt represented DKK 403 million at 31 December 2018 against DKK 429 million at 31 December 2017, primarily due to the focus on net working capital.

Current liabilities totalled DKK 228 million at 31 December 2018 against DKK 188 million at 31 December 2017. Current liabilities are mainly affected by increased financing from suppliers, see comments above under current assets.

Investments totalled DKK 18 million compared to DKK 16 million the year before.

Equity totalled a negative DKK 150 million at 31 December 2018 compared to a negative DKK 166 million at 31 December 2017.

CHANGES IN CASH FLOWS

DKKm	2018	2017
Cash flows from operating activities	44	55
Cash flows from investing activities	-18	-16
Cash flows from financing activities	-26	-40
Cash flows for the year	**-**	**-**

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 2018 compared to a negative DKK 4 million in 2017. Depreciation, amortisation and impairment losses totalled a negative DKK 3 million against a negative DKK 3 million in 2017.

EBIT then totals a negative DKK 7 million against a negative DKK 8 million in 2017.

Finance income and finance costs totalled a negative DKK 13 million against a negative DKK 11 million in 2017.

Profit from continuing operations before tax totals a negative DKK 4 million against a negative DKK 9 million in 2017.

Profit for the year totalled DKK 3 million against a negative DKK 7 million in 2017.

The Parent Company's equity totalled a negative DKK 28 million at 31 December 2018 compared to a negative DKK 32 million at 31 December 2017.

EVENTS AFTER THE REPORTING PERIOD

As of the balance sheet date and until the date of the presentation of the annual report, no events have occurred significantly affecting the assessment of the annual report and the SBS Group's financial position.

OUTLOOK FOR 2019

The SBS Group expects to generate revenue in the range DKK 680-700 million.

Operating profit is again expected to increase. EBITDA recurring is expected to be in the range DKK 70-80 million. The implementation of IFRS 16 alone is expected to contribute with DKK 7 million.

SBS AUTOMOTIVE

SBS AUTOMOTIVE

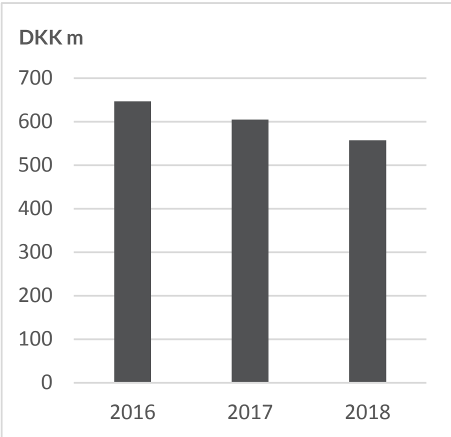
Focus on earnings and business development

SBS Automotive is the SBS Group's largest business area. 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 gear, suspension, transmission and clutches.

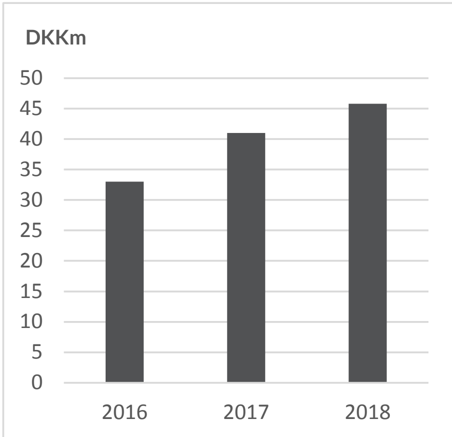
SBS Automotive comprises sales and distribution platforms in Germany, France and Denmark as well as logistics and packaging operation for brake discs and brake callipers in Poland in cooperation with an external party. In addition, SBS Automotive is represented on the Russian market having a sales office in Moscow.

SBS Automotive sells its products on the free spare parts market for passenger cars and delivery vans. The main part of the volume is sold using our own brand, NK, which is marketed throughout Europe. The NK brand is positioned below the market's premium brands, but is a strong alternative to them in respect of quality, assortment and supply. The remaining part of sales

REVENUE



EBITDA RECURRING



is primarily made as private labels within brake discs, brake callipers and brake shoes.

Geographically, SBS Automotive sells its products all over Europe and in neighbouring regions. Germany is the largest market. In addition, the Nordic countries, France and Russia are important markets.

The customer portfolio comprises a broad spectrum of distributors on the free spare parts market, including large international operators, national importers, capital chains, purchasing groups and independent, local wholesalers.

These years, the European automotive market is undergoing considerable structural and technological changes. The car fleet and mileage are on the increase stimulating demand for wear parts. At the same time, the free repair market is challenged by the car industry, which seeks to gain market shares on the repair and service market through better and more hard-wearing original spare parts, leasing concepts on private vehicles and digitalisation of cars' service data. To this should be added the technological mega trends within drive engineering and self-driving cars, which in the long run will change the spare parts market.

Seen in isolation, the free aftermarket is also changing. Consolidation within

SBS AUTOMOTIVE

EBITDA RECURRING DKK 46 MILLION + 11%

INNOVATION – NEW PRODUCT GROUPS

NEW GEOGRAPHICAL MARKETS

STREAMLINING OF SUPPLY CHAIN AND SOURCING PLATFORM

FINANCIAL RATIOS

DKKm	2018	2017
Revenue	557	605
EBITDA recurring	46	41

the industry has accelerated in recent years, where private equity funds and major industry players make acquisitions.

This contributes to rationalisation in the chain of distribution with fewer and larger units. To this should be added changes to buying behaviour patterns with increasing internet trade. This trend continued at the same pace in 2018.

SBS Automotive reported revenue of DKK 557 million in 2018 against DKK 605 million in 2017. The decrease is attributable to an uneven development in the individual market and customer segments where a number of export markets and accounts, including several of the largest customers, noted growth, whereas others noted a decline.

Despite a decrease in revenue, EBITDA recurring rose from DKK 41 million in 2017 to DKK 46 million in 2018.

For the third year in a row, EBITDA increased, and in this period by 11%. The improved results of operation relate to continued optimisation of the Company’s supply chain and cost reductions.

In 2018, SBS Automotive has given high priority to sales-strategic measures that are to ensure renewed revenue growth on profitable terms. Primary focus areas in that connection were the implementation of new partnership concepts and product groups as well as market expansions.

The Company is in particular focussing on reversing the trend on the German market, which has undergone considerable structural changes. Based on the changed customer structure and behaviour, SBS Automotive adjusted its sales strategy and concluded an increasing number of partnership agreements that are to ensure a sound foundation for the NK programme - also in the large distributors’ product portfolios. As part of this process, a generational change has been made in the German organisation, which is to contribute to strengthening the market efforts given the changed market conditions.

A new high-quality steering gear programme, NK PRO, was added to the Company’s product range. The new programme is aimed at markets where road conditions make additional demands on the products’ strength and wearing properties. Furthermore, a new programme was launched for specialised discs that complement the already broad product range offered to the market and a new niche programme within cables. At the Automechanika fair in Frankfurt in September, SBS Automotive furthermore revealed a completely new programme for engine support parts that was launched at the beginning of 2019.

Efforts to penetrate new geographical areas also played an important role in SBS Automotive's business development activities in 2018. At the end of 2017, a new cooperation agreement was made with a well-established, country-wide distributor on the sale of the NK programme on the British market. In 2018, a similar agreement was concluded with an Italian distributor chain with approx. 40 regional members. The agreement aims at bringing the NK programme to all Italian provinces by cooperating with only one partner. The cooperation was published in November 2018 and from

the turn of the year 2018/2019, the concept was rolled out to the members of the distributor group.

Also, SBS Automotive increased its sales efforts on markets in the outskirts of Europe. New cooperative relations were established in Turkey and the Middle East, where SBS Automotive participated in a large regional fair in Dubai in June.

In addition to the measures taken in relation to the NK programme, SBS Automotive strengthened its position within the supply of brake parts in private label in 2018. The Company has established a business model in Stettin, which makes the Company attractive as supplier of brake discs and brake callipers in the customers' own trademarks. In 2018, the Company thus obtained approval as supplier to a leading European distributor on the OES and aftermarkets.

Following the changes in the customer structure, the requirements to the Company's supply chain are also changing. The number of day-to-day supplies typically requested by small distributors is decreasing, whereas the number of large orders with a delivery time of 2-5 days that fulfils the large distributors' needs is increasing - a trend that has requested adjustments to our order handling.

SBS Automotive has in particular been focusing on streamlining the entire value chain from sourcing to delivery - aiming at reducing complexity, costs and working capital. Consequently, the Company has optimised supplier agreements, made process improvements, minimised errors and costs and adjusted and streamlined the interaction between the Company's logistics platforms.

STRATEGIC FOUNDATION AND DEVELOPMENT

As the free automotive aftermarket has undergone considerable changes in recent years, SBS Group management decided in November 2018 to initiate a strategic review of SBS Automotive in order to identify strategic opportunities for the continued development of the business area. The review included an analysis that was to clarify whether it would be advantageous to the division to actively participate in the consolidation or whether it would make more sense to concentrate on organic growth based on the improvements of the operational platform, earnings and market approach that the division had presented in recent years. The analysis is expected to be completed within the first six months of 2019.

SBS FRICTION

SBS FRICTION

Strengthened OEM profile and new products for the aftermarket

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

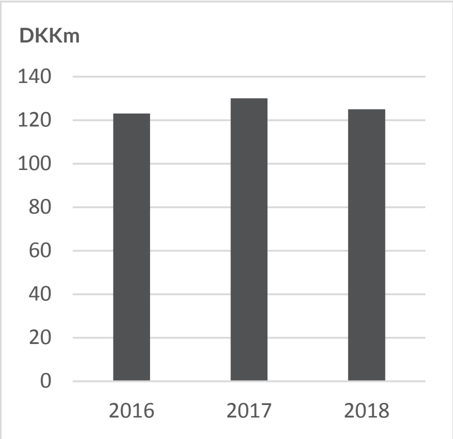
The product portfolio includes self-developed and self-produced brake lining as well as goods for resale in the form of brake discs, brake shoes, brake parts and clutch parts.

SBS Friction holds a strong market position based on high technology know-how within friction technology, innovation, own production and high reliability of supply, and 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 spare parts market. The European aftermarket for motorcycle parts makes up the primary market on which SBS Friction is a leading supplier of brake pads to distributors all over the continent. Italy, France, Germany and Spain make up the most important individual markets. In addition, SBS Friction sells its product on a number of markets outside Europe. The OEM market includes brake systems developers, manufacturers of vehicles, wind turbines or other machines using friction technology.

In 2018, the European aftermarket was

REVENUE

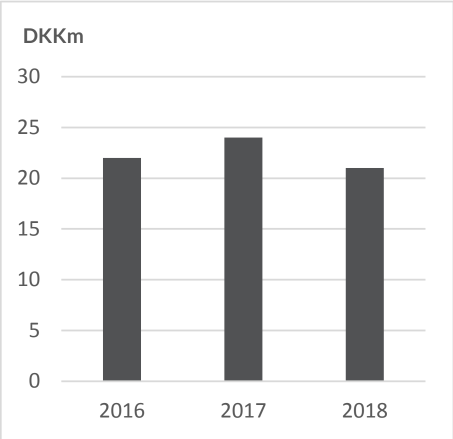


characterised by modest demand. In the first months, sales were affected by an unstable and cool spring in particular on the southern European markets. The warm and long summer did not entirely counterbalance the lacking sales as inventories in the distribution chain were high following the low spring sales.

SBS Friction realised revenue of DKK 125 million in 2018 against DKK 130 million in the record year 2017. Despite the decrease, revenue is still at a high level. EBITDA was DKK 21 million against DKK 24 million in 2017, which is attributable to the development in revenue as well as increasing investments in future growth-stimulating measures.

SBS Friction's brake discs and clutches added new product groups to the aftermarket assortment. Brake discs represent the second largest product group within brake parts.

EBITDA RECURRING



In the year under review, SBS brake discs were taken up by several distributors who find it an advantage to be able to market a complete programme of wear parts for brakes under the SBS trademark, which is well-known and reputable all over Europe. The clutch programme was launched in November. Several distributors are expected to take up the programme under the SBS trademark. Also in 2018, SBS Friction introduced a new product concept for the racing market, which is expected to further strengthen the market position in this attractive segment.

SBS Friction's strategic focus area is to expand on the aftermarket outside Europe. The process of establishing a strong position on the US market is slower than expected. Therefore, changes were made to the distribution and the sales office in Daytona.

In the year under review, new distributor agreements were concluded

SBS FRICTION

REVENUE DKK 125 MILLION.

EXPANSION OF PRODUCT PORTFOLIO - COUPLINGS FOR MOTORCYCLES

NEW OEM PROJECTS

NEW GEOGRAPHICAL MARKET EXPANSIONS

FINANCIAL RATIOS

DKKm	**2018**	**2017**
Revenue	125	130
EBITDA recurring	21	24

on growth markets in Southeast Asia. According to the strategy, SBS is to be positioned as a high-end brand directed at owners of high-priced motorcycles.

Revenue on the OEM market was in line with the year before. In 2018, supplies for new OEM projects were initiated, and at the same time, the pipeline with new projects for motorcycle models that are to be launched in 2020 and ahead increases.

OEM customers look for partners with strong qualifications within product development, test, production and quality management. In recent year, SBS Friction has directed its focus on qualifying the company for the OEM requirements within these areas. In 2018, new specialists were hired for the development department. The production programme is continuously being updated with new technologies - in 2018 i.a. in the form of a new robot press for sinter production, which has increased the capacity and made important improvements to the process. The quality systems have been adjusted to the OEM customers' high demands and a compression test has subsequently been performed based on several customer audits during the year.

STRATEGIC FOUNDATION AND DEVELOPMENT

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

The Company's strategy is based on two-stringed growth - the aftermarket focussing on assortment, delivery capacity and branding as well as the OEM market focussing on innovation, technology and quality management.

On the aftermarket, SBS Friction is one of the leading suppliers of brake lining in Europe, partly under its own brand SBS and partly as supplier of private labels. Despite a high market share, there is still a growth potential on the European market. The growth is to be driven by new products within brake lining and an expansion of the product range to include related product types from which the division may derive advantage from the strong SBS brand.

Efforts outside Europe are mainly directed at growth on one of the largest motorcycle markets, the US. In 2018, adjustments were made to the distribution approach on that market. The market development strategy outside Europe will moreover focus on the establishment of distributor agreements on national markets, where SBS is not yet represented, e.g. South-

SBS FRICTION

east Asia. SBS is positioning itself on those markets typically as supplier of brake lining for the large motorcycles and where there is a potential for high-end quality products.

The OEM market includes vehicle and brake system manufactures within motorcycles, scooters and ATV vehicles. Moreover, the market includes wind turbine manufacturers, mountain bike manufacturers, specialised vehicles and a number of other niches in need of friction technology.

The market is project-oriented and is characterised by being resource-demanding having long implementation periods for new projects. On the other hand, project wins give access to a considerable potential in the form of supplies of brake lining for factory assembly as well as the motorcycle manufacturers' aftermarket programmes.

In recent years, SBS Friction has made considerable investments in establishing a strong position on the OEM market among others in development, production and quality assurance. The Company is now reaping the fruits in the form of an increasing number of projects and inquiries from the world's leading systems and vehicle manufacturers.

CORPORATE GOVERNANCE AND OTHER ISSUES

STATUTORY REPORT ON CORPORATE GOVERNANCE, SEE SECTION 107B OF THE DANISH FINANCIAL STATEMENTS ACT

SBS Group has prepared a statutory report on corporate governance, see section 107b of the Danish Financial Statements Act, for the financial year 2018. An update thereof is published on the Company's webpage, http://www.sbs-group.dk/da-dk/investor/corporate-gov

The report includes an overview of how the SBS Group 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 tasks.

SBS Group management continuously assesses and updates the strategy plan for the SBS Group and the individual business areas.

Organisational focus areas

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

In 2018, changes were made to the German company to strengthen the company in terms of management, just as a large generational change was made due to the fact that several high seniority employees now have reached the retirement age. Those employees have been replaced by new employees who have industry qualification and experience.

The R&D function in SBS Friction has been strengthened, which is to be seen in the light of the increased focus on the OEM market.

The entire SBS Group focuses on digitalisation, including implementation of a new IT platform for which full implementation is planned for 2020. In that connection, additional qualifications have been allocated to the IT area.

The fight about qualified future professionals has intensified during the past years' boom. Therefore, it is important that SBS Group appears as an attractive working place that attracts new well qualified employees. In that connection, the Company works together with universities and other educational institutions, i.a. in connection with final theses and trainee periods. Moreover, the SBS Group's entities educate apprentices within e.g. inventory/logistics, purchasing and administration.

Knowledge resources and R&D activities

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

Environmental performance

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

Environmental considerations are parameters that are taken into account in line with braking ability, lasting quality and comfort when developing new brake lining. SBS Friction has thus launched particularly environment-friendly products within brake lining, and at present, the company participates in a product development work aimed at developing the markets' most environment-friendly sintered brake lining without metals that have a negative environmental impact.

STATUTORY REPORT ON CORPORATE SOCIAL RESPONSIBILITY, SEE SECTION 99A OF THE DANISH FINANCIAL STATEMENTS ACT

Business model

The Company's business activities include R&D, manufacturing, sourcing, distribution and sale of parts within brake technology and related areas. The business activities are placed in the divisions SBS Automotive A/S and SBS Friction A/S.

The SBS Group function as a logistics business and manufacturer has a considerable social impact throughout the entire value chain. Among others in relation to the purchase of components, spare parts, etc. with focus on working conditions with the suppliers and environmental considerations in relation to the extraction and processing of raw materials. In addition to purchasing, the Company also has a social impact through transportation from suppliers to the SBS Group and on to the customer. In that relation, it is particularly relevant to focus on CO2 emission and working conditions with transportation and logistics operators.

In the SBS Group's own direct business, its 253 employees' occupational safety and general working conditions are the Group's top priority. Furthermore, the Company focuses on its energy consumption and its environmental and climate impact in relation to waste and recycling. Finally, the Company's ongoing work with product development implies that the end-products' climate and environmental impact are continuously improved.

Social conditions and employee relations

Policy:
The SBS Group emphasises a safe and secure working place, free of discrimination and where employee satisfaction is highly prioritised.

Risks, actions and results:
The SBS Group's most significant risks within employee relations relate to the Company's own employees and their general satisfaction and safety. In particular the Company's production and logistics activities are subject to risks as work-related accidents may occur if safety is compromised.

In order to promote a safe working environment, the SBS Group has implemented several procedures in order to increase production safety. In 2018, the Company continued its efforts to maintain procedures, which have implied that the safety level remained high and no work-related accidents resulting in death or personal injury have been reported.

In order to ensure that the employees develop professionally and are well-prepared for their tasks, training and further education are highly prioritised in the SBS Group. Moreover, yearly staff development meetings are held between manager and employee as basis for individual training plans. Such meetings were also held in 2018.

The SBS Group is continuously working on improving job satisfaction among its employees and every second year, most recently in 2017, the Group makes a survey of the mental working environment (including employee satisfaction) based on which it was concluded that the level of job satisfaction was generally satisfactory. The next survey is planned for 2019.

As regarding social responsibility, the SBS Group regularly participates in projects and activities that aim at giving people a second chance, who under normal circumstances have had difficulties in gaining foothold on the labour market. The efforts have resulted in several flex and re-entry jobs, which in many cases have subsequently led to lasting employments on normal conditions. The SBS Group cooperates with municipalities, job centers, unions and other organisations i.a. on flex jobs and integration. In 2018, the Company continued its social work, which gave more vulnerable persons a new chance on the labour market.

Climate and environment

Policy:
The SBS Group aims at minimising its impact on the external environment and climate through responsible operations, resource optimisation and product innovation.

Risks, actions and results:
The most significant risks to the environment and climate relate to CO_2 emissions from transportation in the value chain, waste, recycling of materials and energy consumption as well as the end-products' climate and environmental impact.

In order to reduce the negative impact

CORPORATE GOVERNANCE AND OTHER ISSUES

environment from transportation in the value chain, the SBS Group's entities cooperate with transportation and logistics operators that comply with current requirements and legislation relating to transport-related environmental and climate impact.

In terms of product development, the SBS Group continuously works through the SBS Friction division on new lining types where the reduction of resources and environmental impact are 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 metals that have a documented negative environmental impact. The development of the new sintering lining is expected to be completed in 2021.

The SBS Group has also worked on reducing its resource consumption, including the consumption of materials, energy and water and on improving its waste separation. In 2018, the Company focused on minimising the energy consumption and reducing and separating waste from its own production, which has had a positive impact on the external environment and the climate.

Responsible supplier management – human rights and anti-corruption

Policy:
The SBS Group wants to demonstrate responsible supplier management across the supplier chain.

Risks, actions and results:
In relation to the Company's suppliers there is a risk of violating human rights and of corruption and unethical behaviour.

Through its choice of and demands made on suppliers and cooperative partners, the Company is deliberately working against corruption, unethical behaviour or violation of human rights. Following the work, no unacceptable conditions have been noted.

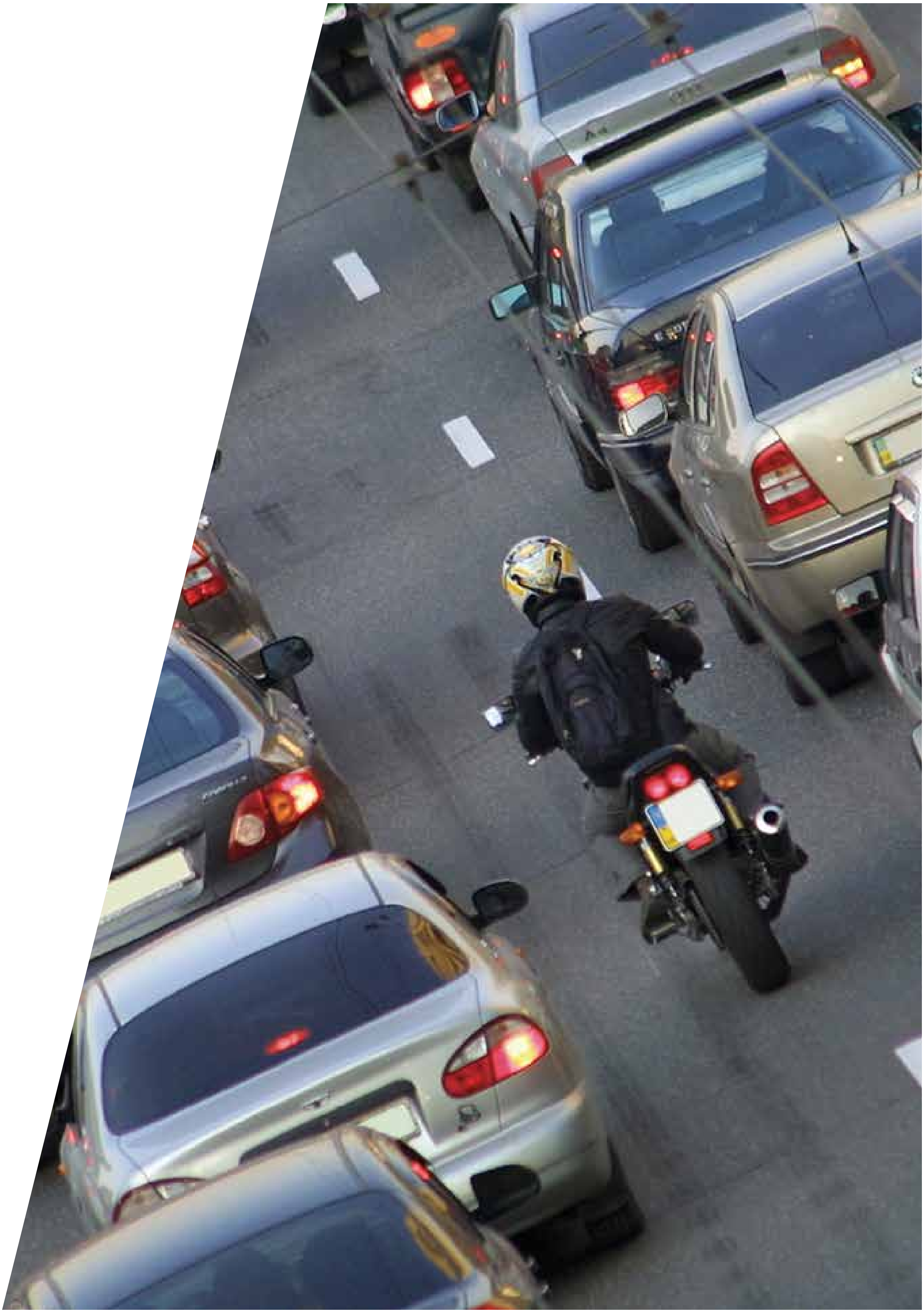
GOALS AND POLICIES FOR THE GENDER QUOTATION ON THE MANAGMEENT BOARD OF SCANDINAVIAN BRAKE SYSTEMS A/S, SEE SECTION 99B OF THE DANISH FINANCIAL STATEMENTS ACT

The Board of Directors in Scandinavian Brake Systems A/S has laid down the Company's target figures and policies for diversity, including the underrepresented gender on the Company's Board of Directors and other management levels of the SBS Group. They 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, the only difference being that this entity is under no obligation to have employee representatives.

The Board of Directors of Scandinavian Brake Systems A/S include four members appointed by the annual general meeting and three members appointed by the employees. One of the members appointed by the annual general meeting is female as is one of the members appointed by the employees. Thereby, the female representation appointed by the annual general meeting is 25% and one third of all members of the Board of Directors, which reflects the Board of Directors' goal.

It is company policy that managers at executive board and top functional levels are employed based on their general skills and qualifications. At the same time, the Company's management considers diversity among its managers a strength and will make an effort to promote that. It is a company goal that the number of female members at executive board and functional management levels is to account for 40%. At 31 December 2018, the percentage was 44%.

The Board of Directors follows management's gender composition regularly and evaluates on a yearly basis the development in relation to the goals and policies laid down. Measures to fulfil the goals will be taken, if required.



RISKS

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 climate as well as product safety.

Competitive conditions are governed by EU legislation on block exemption within the auto business, which among other things governs the relation between the car industry and the free aftermarket. Basically, EU's legislation is to ensure free competition, and thereby the best conditions for the consumers. The technological development, including the car industry's opportunities for commercially utilising the so-called internet-connected cars, is currently challenging the intentions of the legislative framework. Access to cars' service data may bring benefits to the car industry's service network competing with the free workshops. It is essential that the free aftermarket also in future is guaranteed free and unlimited access to data from internet-connected cars, if the intentions of EU legislation of free competition for the benefit of consumers is to be maintained. Such interests are safeguarded by the international and national industry associations that represent the operators on the free aftermarket.

Climate and environmental issues are expected to affect legislation even further in the coming years. The internal composition engine is gradually exchanged by hybrid and electrically powered vehicles. Several countries have laid down green goals for the transport sector that are expected to affect legislation, and more car factories have already launched phase-out plans for the diesel technology in particular. It is obvious that the technological development and climate and environmental legislation will affect the repair market in the long run. Considering the approx. 300 million cars in Europe that are based on conventional technology and a fleet that will continue to increase, this development will not really gain effect until in many years.

Environmental legislation is also directed at limiting the use of certain environmentally harmful materials, including certain metals. Through its development work, SBS Friction is at the forefront of this development and has launched its first "green" brake lining and more are to come.

In terms of product safety, international as well as national type approvals such as ECE R90 are significant to the SBS Group's products. The car parts as well as the motorcycles parts live up to legislative requirements.

It has been assessed that there is no planned legislation posing a risk to SBS Group's business opportunities and business development.

MARKET AND COMPETITIVE CONDITIONS

The SBS Group's primary markets are the free European spare parts market to vehicles; i.a. cars and vans for SBS Automotive and motorcycles and scooters for SBS Friction, respectively.

SBS' product ranges comprise wear parts, which are replaced one or several times during the lifetime of a vehicle. Basically, the growing fleet of vehicles define the size of the aftermarket, which means that the SBS Group's foundation is robust to cyclical fluctuations. A small part of the total consolidated revenue relates to the OEM market at which demand is defined by the production of new vehicles, etc. which is why cyclical fluctuations may generally be considerable.

Risks in relation to market and environment primarily relate to the industry's structural rationalisations, which may imply changed conditions for demand and supply and thus affect the competitive environment. In 2018, the SBS Group initiated a strategic review of SBS Automotive in order to identify how and to what extent, SBS Automotive could be included in the ongoing structural rationalisations.

As mentioned above, the car industry's use of internet-connected solutions in cars poses a risk to operators' business on the aftermarket if the EU legislation does not adequately secure the aftermarket's free access to service and repair on the same terms as the car industry's service network.

CURRENCY RISK

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.

RISKS

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 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 deemed to be limited as DKK is closely linked to the 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 of the SBS Group 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 floating-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 RISK

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. The SBS Group's 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 are specified as follows:

DKKm	**2018**
Cash	0.1
Undrawn credit facilities	48.6
Cash resources at 31 December 2018	**48.7**

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 notes 1 and 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 still amounts to DKK 32,085,000, corresponding to 3,208,500 shares at a nominal value of DKK 10 each.

Scandinavian Brake Systems' shares are traded at NASDAQ Copenhagen A/S under the ID code DK 0060042612. All shares rank equally. There are no restrictions on the transferability and no restrictions on voting rights.

DIVIDENDS
Scandinavian Brake Systems' dividend payments have been suspended as a consequence of the agreement entered into with the Company's bankers. In that connection, it has been agreed that no dividend will be distributed until 1 April 2020. The shareholders' value-creation during the period 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, Scandinavian Brake Systems 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 2019. The Company's holding of treasury shares made up a nominal amount of DKK 13,130 at the end of 2018, equivalent to 0.04% of the share capital. 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.

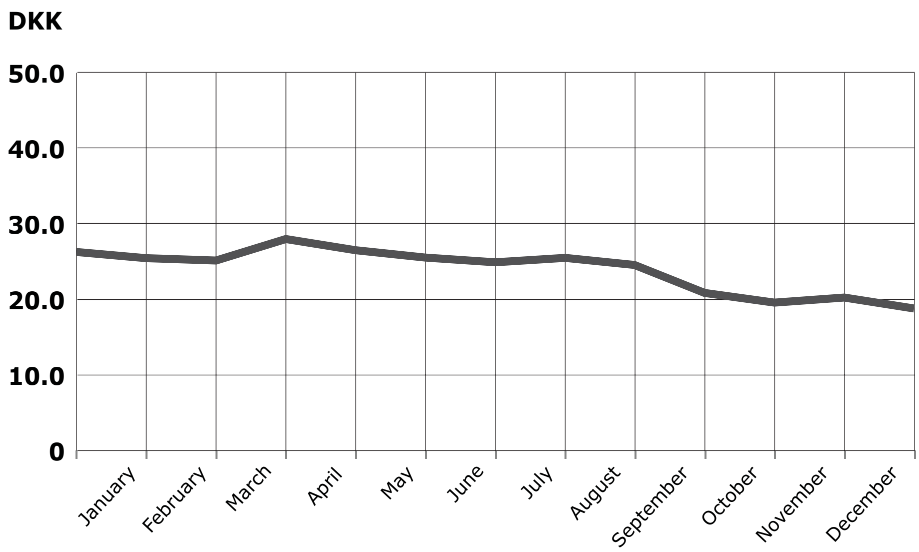
ARTICLES OF ASSOCIATION
The Company's articles of association may be amended by a simple majority at a general meeting if the proposed amendment is notified to the shareholders at the latest three weeks prior to holding an ordinary general meeting and if 66.7% of the issued shares are represented at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

RULES FOR APPOINTING AND REPLACING MEMBERS OF THE BOARD OF DIRECTORS
The Board of Directors of Scandinavian Brake Systems A/S includes four members appointed by the annual general meeting and three members appointed by the employees. The board members appointed by the general meeting are elected for one year at a time, while the members appointed by the employees are elected for a four-year period, latest in 2018.
All board members appointed by the general meeting, including the chairman and the vice chairman are thus up for election each year.

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 and other 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 2018

BOARD OF DIRECTORS

Peter Eriksen Jensen (1954)

Chairman
Elected the first time in 2013 (Chairman from 2016)
Executive Management
CEO in B&P Rådgivning, B&P Holding Aps and International Management Advice ApS.
Professional board member

Shares: 550
(did not trade SBS shares in 2018)

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

Managerial posts
Chairman of the Board of Directors in Broen LAB A/S, E-Vet A/S, Hornsyld, Købmandsgaard A/S, MLD A/S, Summerbird A/S og 3L A/S.
Vice Chairman in Jørgen Kruuse A/S.
Board member in Ken A/S.

This member is considered independent.

John Staunsbjerg Dueholm (1951)

Vice Chairman
Elected the first time in 2016
Master of Commerce
Professional board member

Shares: 0
(did not trade SBS shares in 2018)

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, Hydratech Industries A/S, InterMail A/S, Jetpak AB, SSG A/S, SSG Group A/S and SSG Partners A/S.
Board member in Air Greenland A/S and Globus Wine A/S.

This member is considered independent.

Lars Radoor Sørensen (1963)

Elected the first time in 2013
Master of Commerce

Shares: 0
(did not trade SBS shares in 2018)

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

Managerial posts
Board member in Høyer Group A/S and Skiold A/S.

This member is considered independent.

Pernille Wendel Mehl (1972)

Elected the first time in 2017
Master Management Development (MMD)
CEO in Danske Lotteri Spil A/S.

Shares: 0
(did not trade SBS shares in 2018)

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

Managerial posts
Chairman of the Board of Directors in Dansk Markedsføring and Vikinglotto.
Board member in Eurojackpot and LEIA (Lottery Entertainment Innovation Alliance).

This member is considered independent.

BOARD OF DIRECTORS

Jytte Petersen (1957)

Elected the first time in 2012
Head of Payroll

Employee representative

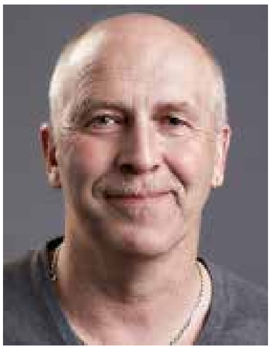
Shares: 0
(did not trade SBS shares in
2018)

Jan B. Pedersen (1959)

Elected the first time in 2002
Warehouse assistant

Employee representative

Shares: 30
(did not trade SBS shares in
2018)



Niels Christian Jørgensen (1957)

Elected the first time in 2018
Warehouse manager

Employee representative

Shares: 0
(did not trade SBS shares in
2018)

EXECUTIVE MANAGEMENT

Mads Bonde (1967)

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

Shares: 0
(did not trade SBS shares in 2018)

Managerial posts
Board member in Erhvervshus Fyn

Carsten Schmidt (1971)

CFO
Employed in 2002
B Com. Management Accounting
Executive MBA

Shares: 250
(did not trade SBS shares in 2018)

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

COMPANY DETAILS

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

ATTORNEY
Kromann Reumert
Sundkrogsgade 5
DK-2100 Copenhagen

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-1264 Copenhagen K.
Stake: 11.7 %

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

STOCK EXCHANGE ANNOUNCEMENTS 2018

20.03	Announcement of the financial statements for 2017, including the annual report for 2017
26.03	Notification of annual general meeting
30.04	General meeting
02.05	Election of employee representatives for the Board of Directors
29.08	Interim report – first half 2018
20.11	Strategic review of SBS Automotive's opportunities
29.11	Financial calendar 2019

STOCK EXCHANGE ANNOUNCEMENTS 2019

28.03	Announcement of the financial statements for 2018, including the annual report for 2018

FINANCIAL CALENDER 2019

18.03	Latest deadline for submitting proposals for the general meeting
28.03	Announcement of the financial statements for 2018, including the annual report for 2018
02.04	Notification of annual general meeting
30.04	Annual general meeting
29.08	Interim report – first half 2019
28.11	Financial calendar 2020

STATEMENT BY 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 2018.

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 2018 and of the results of the Group's and the Company's operations and cash flows for the financial year 1 January – 31 December 2018.

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

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

Svendborg, 28 March 2019

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

Niels Christian Jørgensen

INDEPENDENT AUDITOR'S REPORT

To the shareholders of Scandinavian Brake Systems A/S

Conclusion

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 2018, 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 2018 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with International Financial Reporting Standards 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, 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 29 years up until the financial year 2018.

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 2018. 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 150.2 million and a negative DKK 28.4 million, respectively at 31 December 2018. 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 credit agreement with the Group's bankers in March 2017 which is in force until 1 April 2020. The credit agreement is subject to various financial as well as non-financial terms and conditions (covenants). Management estimates the cash requirements based on expectations of development in revenue, balance sheet and cash flow based on the 2019 budget and forecast for 2020 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 the assumptions and estimates used by Management regarding budgets and forecast and assessed 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 has 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.

Deferred tax assets recognised in the Group totalled DKK 45.2 million and DKK 6.5 million in the Parent Company at 31 December 2018. 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.

Our audit included an evaluation of the assumptions and estimates applied by Management to assess the probability of generating sufficient future taxable profits based on the budget for 2019 and forecast for 2020 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 182.5 million at 31 December 2018, which corresponds to 39 % 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's review
Management is responsible for the Management's review.
Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial 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.

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

INDEPENDENT AUDITOR'S REPORT

arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Aalborg, 28 March 2019

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

Hans B. Vistisen
State Authorised Public Accountant
mne23254

Torben Ahle Pedersen
State Authorised Public Accountant
mne16611

INCOME STATEMENT

DKKm Notes	SBS GROUP 2018	SBS GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
Revenue	**682.4**	**735.0**	**23.2**	**25.7**
Cost of raw materials and consumables	-436.8	-447.1	–	-
Changes in inventories of finished goods and work in progress	28,5	2,6	–	-
Other external costs	-98.5	-114.9	-8.9	-9.6
Staff costs	-113.1	-114.4	-18.6	-20.4
Operating profit before depreciation, amortisation, impairment losses and special items (EBITDA recurring)	**62.5**	**61.2**	**-4.3**	**-4.3**
Special items	-5.3	-3.7	–	-
Operating profit/loss before depreciation, amortisation and impairment losses (EBITDA)	**57.2**	**57.5**	**-4.3**	**-4.3**
Depreciation, amortisation and impairment losses	-15.8	-16.2	-2.6	-3.2
Operating profit/loss (EBIT)	**41.4**	**41.3**	**-6.9**	**-7.5**
Impairment write-down and reversal of write-down regarding investments and receivables from subsidiaries	–	–	-9.2	4.3
Interest income, group entities	-	-	25.0	5.0
Finance income	0.6	1.9	0.6	1.9
Finance costs	-24.0	-23.4	-13.5	-12.5
Profit/loss from continuing operations before tax	**18.0**	**19.8**	**-4.0**	**-8.8**
Tax on profit/loss for the year	-4.5	-0.6	6.8	2.0
Profit/loss from continuing operations before tax	**13.5**	**19.2**	**2.8**	**-6.8**
Profit/loss from discontinuing operations after tax	-	0.5	-	-
Profit/loss for the year	**13.5**	**19.7**	**2.8**	**-6.8**
Basic earnings per share (EPS)	4.2	6.1		
Diluted earnings per share (EPS-D)	4.2	6.1		
Profit/loss from continuing operations per share (EPS)	4.2	6.0		
Diluted profit/loss from continuing operations per share (EPS-D)	4.2	6.0		

Proposed profit appropriation:		
Dividends DKK 0 per share (2017: DKK 0 per share)	-	-
Retained earnings	2.8	-6.8
Total	**2.8**	**-6.8**

STATEMENT OF COMPREHENSIVE INCOME

DKKm Notes		SBS GROUP 2018	SBS GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
	Profit/loss for the year	**13.5**	**19.7**	**2.8**	**-6.8**
	Other comprehensive income				
	Items that can be reclassified to the income statement:				
	Foreign exchange translation adjustments of foreign subsidiaries	0.2	0.1	-	-
	Value adjustments of hedging instruments:				
	Value adjustments for the year	3.2	-0.6	1.6	2.9
	Value adjustment transferred to finance costs	-0.6	-1.9	-0.6	-1.9
	Tax on other comprehensive income	-0.6	0.6	-0.2	-0.3
	Other comprehensive income after tax	**2,2**	**-1,8**	**0,8**	**0,7**
	Total comprehensive income	**15.7**	**17.9**	**3.6**	**-6.1**
	Broken down as follows:				
	Shareholders of Scandinavian Brake Systems A/S			3.6	-6.1
				3.6	-6.1

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

BALANCE SHEET – ASSETS

DKKm Notes		SBS GROUP 31.12.2018	31.12.2017	PARENT COMPANY 31.12.2018	31.12.2017
	NON-CURRENT ASSETS				
	Intangible assets				
	Goodwill	12.5	12.5	-	-
	Patents, rights and trademarks	1.5	1.5	-	-
	Development projects	11,3	11,7	-	-
	Software	8.0	6.2	7.3	5.4
		33.3	31.9	7.3	5.4
	Property, plant and equipment				
	Land and buildings	59.1	60.7	25.4	26.0
	Plant and machinery	25.4	20.7	-	-
	Fixtures and fittings, tools and equipment	7.7	9.5	1.0	1.1
		92.2	90.9	26.4	27.1
	Other non-current assets				
	Investments in subsidiaries	–	–	236.1	236.1
	Securities	0.1	0.1	0.1	0.1
	Deferred tax	45.2	47.6	6.5	2.0
		45.3	47.7	242.7	238.
	Total non-current assets	**170.8**	**170.5**	**276.4**	**270.7**
	CURRENT ASSETS				
	Inventories	182.5	154.0	–	-
	Receivables	112.1	119.9	15.5	12.5
	Corporation tax receivable	-	0,1	-	-
	Cash	0.1	0.1	-	-
	Total current assets	**294.7**	**274.1**	**15.5**	**12.**
	TOTAL ASSETS	**465.5**	**444.6**	**291.9**	**283.**

BALANCE SHEET – EQUITY AND LIABILITIES

DKKm		SBS GROUP		PARENT COMPANY	
Notes		31.12.2018	31.12.2017	31.12.2018	31.12.2017
	EQUITY				
	Share capital	32.1	32.1	32.1	32.1
	Hedging reserve	-2.7	-4.7	-2.5	-3.3
	Currency translation reserve	1,8	1,6	-	-
	Revaluation reserve	10.6	10.6	10.1	10.1
	Retained earnings	-192.0	-205.5	-68.1	-70.9
	Total equity	**-150.2**	**-165.9**	**-28.4**	**-32.0**
	LIABILITIES				
	Non-current liabilities				
	Provisions for losses re. subsidiaries	–	–	98.7	89.5
	Provisions	8.7	10.2	-	-
	Credit institutions, etc.	379.1	412.7	18.6	20.7
	Trade and other payables	–	–	25.0	50.0
	Total current liabilities	**387.8**	**422.9**	**142.3**	**160.2**
	Current liabilities				
	Credit institutions, etc.	24.4	16.7	2.3	2.4
	Trade and other payables	202.4	169.8	175.7	152.6
	Provisions	1.1	1.1	-	-
	Total current liabilities	**227.9**	**187.6**	**178.0**	**155.0**
	Total liabilities	**615.7**	**610.5**	**320.3**	**315.2**
	TOTAL EQUITY AND LIABILITIES	**465.5**	**444.6**	**291.9**	**283.2**

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 1.1.2017	**32.1**	**-2.8**	**1.5**	**10.6**	**-225.2**	**-183.8**
Total comprehensive income 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	-	-0.6	-	-	-	-0.6
Value adjustments transferred to finance income *	-	-1.9	-	-	-	-1.9
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 31.12.2017	**32.1**	**-4.7**	**1.6**	**10.6**	**-205.5**	**-165.9**
Equity 1.1.2018	**32.1**	**-4.7**	**1.6**	**10.6**	**-205.5**	**-165.9**
Total comprehensive income 2018						
Profit for the year	-	-	-	-	13.5	13.5
Other comprehensive income						
Foreign exchange adjustments on translation of foreign subsidiaries	-	-	0.2	-	-	0.2
Value adjustments of hedging instruments:						
Value adjustment for the period	-	3.2	-	-	-	3.2
Value adjustments transferred to finance income *	-	-0.6	-	-	-	-0.6
Tax on other comprehensive income	-	-0.6	-	-	-	-0.6
Total other comprehensive income	**-**	**2.0**	**0.2**	**-**	**-**	**2.2**
Comprehensive income for the period	**-**	**2.0**	**0.2**	**-**	**13.5**	**15.7**
Equity 31.12.2018	**32.1**	**-2.7**	**1.8**	**10.6**	**-192.0**	**-150.2**

STATEMENT OF CHANGES IN EQUITY

*) The Group's interest rate swap of nominally EUR 5.9 million to hedge the floating interest on the Group's mortgage debt regarding the Danish properties had a fair value of DKK -10.1 million at 31 December 2018.
SBS divested the Notox activity in 2016, inclusive of the properties. Accordingly, the mortgage debt regarding the properties in Notox was paid off. This implies that part of the interest rate swap relates to excess hedging as the nominal value of the interest rate swap exceeds the nominal amount of the remaining mortgage debt. The proportionate share of the fair value of the interest rate swap that is no longer hedged (70% at 31 December 2018 against 66% at 31 December 2017) total DKK -7.1 million (DKK -5.5 million after tax) at 31 December 2018 against DKK -7.7 million (DKK -6,0 million after tax) at 31 December 2017. This implies that an amount of DKK 0.6 million (DKK 0.5 million after tax) in 2018 was recognised in the income statement as net financials. As to the remaining part of the interest rate swap (30% at 31 December 2018 against 34% at 31 December 2017), an analysis and an efficiency test have been made that show that the remaining part of the hedge is still in force at 31 December 2018. The remaining negative fair value of the interest rate swap of DKK 3.0 million before tax (DKK 2.4 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.

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.

Translation reserve
The translation reserve comprises foreign currency differences arising upon the translation of financial statements of foreign enterprises from their functional currency to the Group's presentation currency (DKK).

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 1.1.2017	**32.1**	**-4.0**	**10.1**	**-64.1**	**-25.9**
Total comprehensive income for 2017					
Profit/Loss for the year	-	-	-	-6.8	-6.8
Other comprehensive income					
Value adjustments of hedging instruments:					
Value adjustment for the period	-	2.9	-	-	2.9
Value adjustments transferred to finance costs *	-	-1.9	-	-	-1.9
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 31.12.2017	**32.1**	**-3.3**	**10.1**	**-70.9**	**-32.0**
Equity 1.1.2018	**32.1**	**-3.3**	**10.1**	**-70.9**	**-32.0**
Total comprehensive income for 2018					
Profit/Loss for the year	-	-	-	2.8	2.8
Other comprehensive income					
Value adjustments of hedging instruments:					
Value adjustment for the period	-	1.6	-	-	1.6
Value adjustments transferred to finance costs *	-	-0.6	-	-	-0.6
Tax on other comprehensive income	-	-0.2	-	-	-0.2
Total other comprehensive income	**-**	**0.8**	**-**	**-**	**0.8**
Comprehensive income for the period	**-**	**0.8**	**-**	**2.8**	**3.6**
Equity 31.12.2018	**32.1**	**-2.5**	**10.1**	**-68.1**	**-28.4**

STATEMENT OF CHANGES IN EQUITY

*) The Company's interest rate swap of nominally EUR 5.9 million to hedge the floating interest on the Group's mortgage debt regarding the Danish properties has a fair value of DKK -10.1 million at 31 December 2018. SBS divested the Notox activity in 2016, inclusive of the properties. Accordingly, the mortgage debt regarding the properties in Notox was paid off. This implies that part of the interest rate swap relates to excess hedging as the nominal value of the interest rate swap exceeds the nominal amount of the remaining mortgage debt. The proportionate share of the fair value of the interest rate swap that is no longer hedged (70% at 31 December 2018 against 66% at 31 December 2017) total DKK -7.1 million (DKK -5.5 million after tax) at 31 December 2018 against DKK -7.7 million (DKK -6,0 million after tax) at 31 December 2017. This implies that an amount of DKK 0.6 million (DKK 0.5 million after tax) was recognised in the income statement as net financials. As to the remaining part of the interest rate swap (30% at 31 December 2018 against 34% at 31 December 2017), an analysis and an efficiency test have been made that show that the remaining part of the hedge is still in force at 31 December 2018. The remaining negative fair value of the interest rate swap of DKK 3.0 million before tax (DKK 2.4 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.

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 2018	SBS GROUP 2017	PARENT COMPANY 2018	PARENT COMPANY 2017
	Profit/Loss from continuing operations before tax	18.0	19.8	-4.0	-8.8
	Amortisation and impairment losses	15.8	16.2	2.6	3.2
1	Adjustments	23.4	22.5	22.1	9.9
2	Changes in working capital	14.0	22.1	23.9	37.3
	Cash generated from operations (operating activities)	71.2	80.6	44.6	41.6
	Finance costs paid	-23.4	-22.8	-13.5	-12.5
	Corporation tax paid during the financial year (net)	-3.5	-2.4	-	-
	Cash flow from operating activities	**44.3**	**55.4**	**31.1**	**29.1**
	Acquisition of intangible assets	-6.7	-8.7	-3.3	-3.3
	Acquisition of property, plant and equipment	-12.0	-15.8	-0.6	-0.6
	Sale of property, plant and equipment	0.3	8.7	-	8.6
	Cash flow from investments	**-18.4**	**-15.8**	**-3.9**	**4.7**
	Raising and repayment of non-current payables	-25.9	-39.6	-2.2	-8.8
	Raising and repayment of intra-group debt	-	-	-25.0	-25.0
	Cash flow from financing activities	**-25.9**	**-39.6**	**-27.2**	**-33.8**
	Cash flows for the year	**-**	**-**	**-**	**-**
	Liquid funds at the beginning of the period	0.1	0.1	-	-
	Liquid funds at the end of the period	**0.1**	**0.1**	**-**	**-**
1	**Adjustments**				
	Finance income				
	Finance costs	24.0	23.4	13.5	12.5
	Impairment write-down of investments and amounts owed by subsidiaries	-	-	9.2	-4.3
	Other adjustments	-	1.0	-	3.6
		23.4	**22.5**	**22.1**	**9.9**
2	**Changes in working capital**				
	Changes in trade payables, etc.	8.7	1.2	-0.9	-1.9
	Changes in inventories	-28.5	-4.2	-	-
	Change in trade and other payables	33.8	25.1	24.8	39.2
		14.0	**22.1**	**23.9**	**37.3**

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

NOTES

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 2018 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 2018 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 the IASB.

On 28 March 2019, the Board of Directors and the Executive Board have discussed and approved the annual report of Scandinavian Brake Systems A/S for 2018. 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 2019.

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.

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 that could raise doubt about the Group's and the Parent Company's ability to continue as a going concern at least until the next balance sheet date. The conclusion drawn is based on knowledge of the Group and the Parent Company, the estimated outlook and the uncertainties and risks identified in this respect (described in the Management's review and note 2) as well as an examination of budgets, including the expected developments in liquidity, capital base, etc., existing credit facilities, including contractual and expected maturity periods, as well as other terms. Thus, it is considered appropriate, reasonable and well-founded to base the financial reporting on the going concern assumption.

Changes in accounting policies

In 2018, SBS has implemented the standards and interpretations effective in the EU from 2018. SBS applies "IFRS 9 Financial Instruments" and "IFRS 15 Revenue from Contracts with Customers" for the first time. The effect of those changes are described below. Several other changes and interpretations are also effective from 2018. None of them have an effect on recognition and measurement in the consolidated financial statements and parent company financial statements.

IFRS 9 Financial instruments

IFRS 9 Financial Instruments that replaces IAS 39 introduces a more logical approach to the classification of financial assets driven by the entity's business model and the characteristics of the underlying cash flows. At the same time, a new impairment model is introduced for all financial assets.

Classification and measurement of financial assets and liabilities

The implementation of IFRS 9 has not had any impact of the classification and measurement of financial assets and liabilities in the Group and the Parent Company. Previously, the Group's and the Parent Company's receivables, which primarily relate to trade receivables and services, were classified as lending and receivables and measured at amortised cost. The Group's business model is to own these assets in order to receive contractual cash flows, and therefore, these financial assets are classified as lending and receivables measured at amortised cost. The classification change did not give rise to any changes in gross receivables.

Impairment of financial assets

Based on SBS' business model and type of financial assets and liabilities, the implementation of IFRS 9 has potentially only an effect on the Group's impairment of financial assets, which are measured at amortised cost. IFRS 9's simplified expected credit loss model is used for trade receivables according to which total expected losses are recognised immediately. The change from the former impairment model according to which impairment losses are not recognised until there is evidence of impairment (incurred loss model) to IFRS 9' expected credit loss model, will imply a more timely recognition of expected losses on initial recognition as well as on subsequent recognition.

Cash flow hedge

Regarding the Group's risk management policy, reference is made to note 28 for a detailed description, including hedges.

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

Implementation of IFRS 9
Based on the portfolio of financial assets and liabilities and limited historical losses and loss ratios on loans and receivables, the implementation of IFRS 9 has solely had immaterial impact on recognition and measurement, profit/loss, diluted earnings per share and the cash flow statement. Consequently, the effect thereof has not been recognised in the opening balance sheet at 1 January 2018.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 Revenue from Contracts with Customers, which replaces the current standards on revenue (IAS 11 and IAS 18) and interpretations, introduces a new model for recognising and measuring revenue from contracts with customers. The most significant changes in IFRS 15 compared to standards applicable so far are:

A sales transaction must be recognised as revenue in the income statement as control (which can take place either at a given date or over time) over the good or service, respectively, is transferred to the customer. The current "risk and rewards" principle is thus replaced by a control principle.

New and more detailed guidelines on how to identify partial transactions under a sales contract and how to recognise and measure the individual components.

New and more detailed guidelines on revenue recognition over time. The new standard may potentially become important for how estimates and assessments of e.g. variable consideration, identification of sales contracts' partial components, etc. has affected amounts and/or timing of revenue recognition, in particularly in relation to sales with a right of return.

The implementation of IFRS 15 has not had an impact on recognition and measurement, profit/loss, diluted earnings per share and the cash flow statement.

IFRS 16 Leases
IFRS 16 takes effect for financial years beginning on 1 January 2019, and SBS has not early adopted the standard. The analysis regarding IFRS 16 has been completed.

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 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 2018 and 2017 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.

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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, transactions denominated in foreign currencies are translated at the functional currency using the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as finance income or finance costs.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the functional currency using the exchange rates at the balance sheet date. 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 balance sheet date. 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.

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

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.

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

Fair value hedge
Fair value adjustments of derivative financial instruments designated and qualifying as hedging of the fair value of a recognised asset or liability are recognised in the income statement together with value adjustments of the hedged asset or liability as regards the portion that is hedged.

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

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
Fair value adjustments of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement as net financials on an ongoing basis.

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

INCOME STATEMENT

Revenue
The Group's sales agreements are divided into individual identifiable performance obligations that are recognised and measured separately at fair value. If a sales agreement comprises more performance obligations, the total sales value of the sales agreement is allocated proportionately to the individual performance obligations under the agreement. Revenue is recognised when control over the individual identifiable performance obligation under the sales agreement is transferred to the customer.

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

The variable part of the total consideration, e.g. in the form of discounts, bonus payments, etc. is not recognised in revenue until it is fairly probable that it will not have to be reversed in subsequent periods, e.g. due to non-fulfilment of the target, etc.

Sale of finished goods and goods for resale is recognised in revenue when control over the individual identifiable performance obligations under the sales agreement is transferred to the customer, which according to the sales terms takes place at the date of delivery. Even though a sales agreement regarding the sale of goods for resale and finished goods often comprises several performance obligations, the agreement is accounted for as one, as delivery typically takes place as one and at the same time.

The payment terms of the Group's sales agreements with customers are partly dependent on the underlying performance obligation and partly dependent on the underlying customer relationship. Payment terms for the sale of goods where control is transferred at a given date, will typically be current month + 1-3 months. The Group does not conclude sales agreements where the credit line exceeds 12 months, and therefore, the Group does not adjust the agreed contract price with a financing component.

Phantom share scheme (cash-settled bonus scheme)
The value of services received in exchange for 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

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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 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 expenses
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 corporate income tax charge is allocated between the jointly taxed entities 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

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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.

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life from the date at which 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.

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 (trademarks) 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

Equity investments in subsidiaries in the parent company financial statements
Equity 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.

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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.

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.

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 of and depreciation on the production machinery, buildings and equipment and expenses relating to production and plant 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 as of 1 January 2018
Receivables are measured at amortised cost. Provisions for bad debts are made according to the simplified expected credit loss approach, according to which, the total loss is recognised immediately in the income statement at the date at which the receivable is recognised in the balance sheet based on the expected loss during the total lifetime of the receivable. Recognition as income of interest on written-down receivables is calculated based on the written-down value using the effective interest rate for each individual receivable.

The financial asset is monitored regularly in accordance with the Group's risk management until realisation. The impairment loss is calculated based on the expected loss ratio, which is calculated for financial assets allocated on geographical location. The loss ratio is calculated based on historical data, corrected for estimates of the effect of the expected changes in relevant parameters such as the financial development in the market in question.

Receivables before 1 January 2018
Receivables are measured at amortised cost. Provisions are made for bad debts where there is objective evidence that an individual receivable is impaired. 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. The effective interest rate used at the time of initial recognition is used as the discount rate for the individual receivable or portfolio. Recognition as income of interest

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

on written-down receivables is calculated based on the written-down value using the effective interest rate for each individual receivable.

EQUITY

Dividend

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

LIABILITIES

Pension obligations

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

Current and deferred tax

Current tax payables and receivables are recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on prior-year taxable income and tax paid on account.

Joint taxation contributions payable and receivable are recognised in the balance sheet 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 value of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill that 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

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

date when the deferred tax is expected to crystallise as current tax. Changes in deferred tax due to changes in the tax rate are recognised in total 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
Mortgage debt, etc., is 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.

Other financial liabilities are measured at amortised cost.

Leasing
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 commitments 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.

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 Group's accounting policies 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

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

comprise assets and liabilities and income and costs related to the Group's administrative functions, investment activities, income taxes, etc.

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

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

Alternative financial highlights

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

Key figures

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

NOTE 1 ACCOUNTING POLICIES – (CONTINUED)

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 24-25 to the consolidated financial statements and the parent company financial statements.

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

Estimates particularly material to the financial reporting are made, e.g., based on cash resources and financing and an assessment of the recoverability of deferred tax assets and impairment write-down of inventories. 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 activities in 2016.

The Group's and the Parent Company's equity totals a negative DKK 150.2 million and a negative DKK 28.4 million, respectively, at 31 December 2018.

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 2019. 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 budget for 2019, will contribute to a gradual strengthening of the capital base. Thus, it is assessed that the Parent Company has re-established the share capital via dividends from subsidiaries within a foreseeable future.

Liquidity and financing
In March 2017, the Group entered into a credit agreement with its bankers according to which, the Group's expected capital requirements are covered until 1 April 2020 when the agreement will be renegotiated. Adjustments were made to the agreement in December 2018. 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 year.

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, balance sheet and cash flow and the business plan for the term of the agreement up to 1 April 2020. The performance thereof is material to the compliance with the credit agreement. Moreover, it has been agreed that no dividends are distributed for the three years during which the credit agreement is in force.

The Parent Company's cash resources are highly dependent on the cash resources of the other group companies. The Danish companies have issued mutual guaranties to the Group's bankers. The Parent Company has provided guarantee for bank debt in DPF, Svendborg A/S, just as a comfort letter has been issued to the subsidiary. Based thereon, a provision for bad debts has been made in the parent company financial statements for 2018 regarding DPF Svendborg A/S in the amount of DKK 98.7 million at 31 December 2018.

Based on the group budget for 2019, 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 2019.

Based on the budget for 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 credit agreement.

Consolidated liquidity at 31 December 2018 is specified as follows:

DKKm	**2018**	**2017**
Cash	0.1	0.1
Undrawn credit facilities	48.6	37.0
Capital resources at 31 December	**48.7**	**37.1**

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

DKKm

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 45.2 million at 31 December 2018 (2017: DKK 47.6 million) which are specified as follows:

DKKm	
Temporary differences between the carrying amount and the tax base of assets	34.8
Temporary differences between the carrying amount and the tax base of provisions and liabilities	3.8
Tax loss carryforwards	54.9
Deferred tax assets (before write-down)	**93.5**
Non-capitalised deferred tax assets (primarily deferred tax assets allowed for carryforward)	-48.3
Deferred tax assets at 31 December 2018	**45.2**

Based on the budget for 2019 and expectations of the coming years, group management has assessed the Group's deferred tax assets at 31 December 2018.

According to group management, the utilisation of the deferred tax asset of DKK 38.6 million at 31 December 2018 (2017: DKK 41.3 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 2018.

As to the deferred tax asset regarding tax losses allowed for carryforward, group management has assessed that a deferred tax asset of DKK 6.6 million can be recognised at 31 December 2018 (2017: DKK 6.3 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 4.8 million at 31 December 2018 (2017: DKK 1.6 million). The increase in the deferred tax asset relating to the French subsidiary is attributable to an improved business case.

The Group's unrecognised tax assets then totalled DKK 48.3 million at 31 December 2018 compared to DKK 47.6 million at 31 December 2017.

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 2018, inventory write-downs totalled DKK 9.1 million against DKK 8.6 million at 31 December 2017.

DKKm

NOTE 3 SEGMENT INFORMATION

Activities

SBS GROUP

	SBS Automotive		SBS Friction		Other segments incl. eliminations *		Reportable segments Total	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Revenue for external customers	557.4	604.9	125.0	130.1	–	–	**682.4**	**735,0**
EBITDA recurring	45,8	41,2	21,1	24,3	-4,4	-4,3	**62,5**	**61,2**
Depreciation and amortisation	-4.3	-4.4	-8.9	-8.6	-2.6	-3.2	**-15.8**	**-16.2**
Operating profit	36.5	33.1	11.9	15.7	-7.0	-7.5	**41.4**	**41.3**
Finance income and finance costs (net)	-3,2	-4,7	-2,7	-2,0	-17,5	-14,8	**-23,4**	**-21,5**
Profit/loss before tax	33,3	28,5	9,2	13,7	-24,5	-22,4	**18,0**	**19,8**
Profit/loss from continuing operations	28,6	20,9	7,2	10,7	-22,3	-12,4	**13,5**	**19,2**
Segment assets	390,0	378,3	141,0	135,4	-65,5	-69,1	**465,5**	**444,6**
Capital expenditure	1,9	7,1	9,8	8,0	0,3	0,7	**12,0**	**15,8**
Segment liabilities	402,9	386,5	75,0	78,9	137,8	145,1	**615,7**	**610,5**
Cash flow from operating activities	49,2	54.9	21,4	17,6	-26,3	-17,1	**44,3**	**55.4**
Cash flow to investing activities	-2,0	-7,5	-12,8	-13,0	-3,6	4,7	**-18,4**	**-15,8**
Cash flow from financing activities	-33,8	-8,7	-0,2	-6,0	8,1	-24,9	**-25,9**	**-39,6**
Total cash flows for the year	**13,4**	**38,7**	**8,4**	**-1,4**	**-21,8**	**-37,3**	**-**	**-**

* 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 2018 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. See pages 7-8 in the 2012 annual report of the Management commentary for disclosures on the transfer.

Transactions between segments are conducted at an arm's length basis. Internal revenue between segments is limited. Revenue primarily relates to invoicing of shared services.

Reportable segments of the SBS Group are made up of strategic business units which sell various products and services. Each unit is operated independently of the other units as each unit has different customers and end users and requires different technology and marketing strategy.

The SBS Group has two reportable segments: SBS Automotive and SBS Friction.

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

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

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 products, 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.

	Reportable segments Total	
	2018	**2017**
Revenue to external customers in Germany	32%	36%
Revenue to external customers in other European countries	28%	27%
Revenue to external customers in the Nordic countries	16%	15%
Revenue to external customers in Russia	11%	10%
Revenue to external customers in France	11%	10%
Revenue to external customers from other foreign countries	2%	2%
Revenue, see income statement	**100%**	**100%**
Non-current segment assets in Denmark	83.4	79.0
Non-current segment assets in Europe	42.1	43.8
Non-current assets, see statement of financial position **	**125.5**	**122.8**
Capital expenditure in Denmark	11.0	8.9
Capital expenditure in Europe	1.0	6.9
Capital expenditure, see the cash flow statement	**12.0**	**15.8**

** 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 operation, assets and liabilities
Revenue, results of operation, assets and liabilities can be derived directly from the income statement on page 34 and from the statement of financial position on pages 36-37.

GROUP

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