– wheel meet again!

STARCO Europe A/S

Sintrupvej 71 B, st. tv., DK-8220 Brabrand

CVR no. 14 33 97 01

Annual report 2016

Approved at the Company's annual general meeting on 6 June 2017

Chairman:

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Contents

Statement by Management on the annual report

Today, the Board of Directors and the Executive Board have discussed and approved the annual report of STARCO Europe A/S for the financial year 1 January - 31 December 2016.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2016 and of the results of the Group's and the Parent Company's operations and the consolidated cash flows for the financial year 1 January - 31 December 2016.

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

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

Brabrand, 6 June 2017
Executive Board:

Richard Todd

Richard Stephen Todd CEO	Karsten Ehlig Petersen CFO

Board of Directors:

Carl Evald Bakke Jacobsen Chairman	Herve Fréderic Richert	Christian Bruun Ejlersgaard
Philip Bruun Ejlersgaard	Poul Steen Rasmussen	

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Brabrand, 6 June 2017
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Board of Directors:

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Brabrand, 6 June 2017
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Philip Bruun Ejlersgaard	Poul Steen Rasmussen	

Independent auditor's report

To the shareholders of STARCO Europe A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of STARCO Europe A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as a consolidated statement of cash flows. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the Parent Company at 31 December 2016 and of the results of the Group's and the Parent Company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2016 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the consolidated financial statements and the parent company financial statements

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

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the 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 consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent company financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and parent company financial statements.

Independent auditor's report

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

- Identify and assess the risks of material misstatement of the consolidated financial statements and the parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's and the 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 consolidated financial statements and the parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company 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 consolidated financial statements and the parent company 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 consolidated financial statements or the parent company financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

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

Independent auditor's report

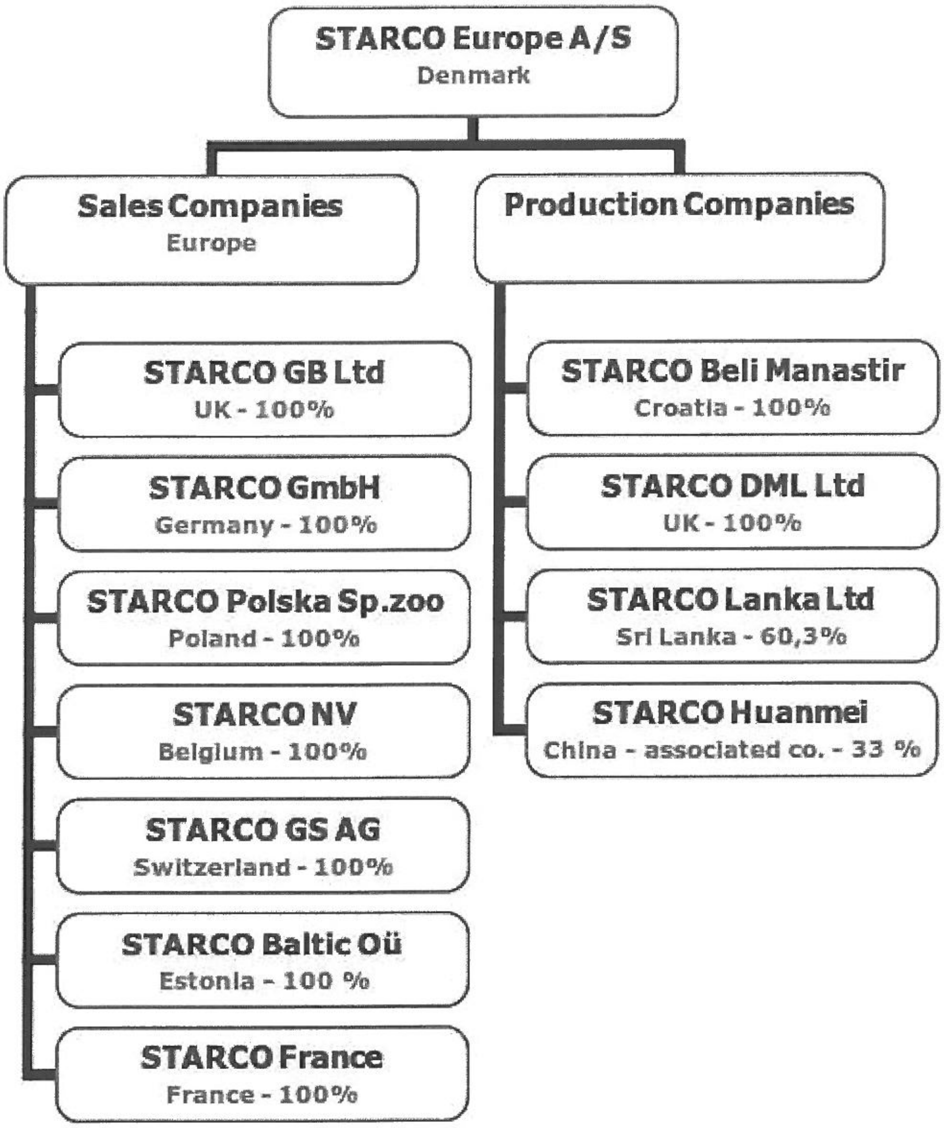
Based on our procedures, we conclude that the Management's review is in accordance with the consolidated financial statements and the parent company financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Aarhus, 6 June 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Morten Friis	Hans Peter Roug
State Authorised	State Authorised
Public Accountant	Public Accountant

Management's review

Group chart – operational companies



Management's review

Financial highlights for the Group

DKK'000	2016	2015	2014	2013	2012
Key figures					
Revenue	830,585	1,011,483	1,025,393	1,024,435	1,017,957
Gross margin	248,202	318,026	333,738	328,880	301,859
Profit/Loss before net financials	159,083	14,349	41,657	32,805	273
Net financials	-20,497	-43,082	-40,600	-32,091	-23,916
Profit/loss before tax	138,586	-28,733	1,057	624	-21,959
Net profit/loss for the year prior minority interests	103,849	-35,520	-6,506	-3,630	-26,635
Net profit/loss for the year	105,291	-34,702	-6,141	-3,023	-25,073
Shareholders' equity at year-end	120,188	27,403	53,790	55,490	60,930
Total assets	515,931	591,751	664,207	666,223	671,097
Cashflows from operating activities	-53,375	48,436	18,185	30,384	9,004
Investments in property, plant and equipment and intangible assets	85,329	23,011	22,951	22,085	42,465
Financial ratios					
Gross margin ratio	29,9%	31,4%	32,5 %	32.1 %	29.7%
Return on assets	30,8%	2,4%	6,3 %	4.9 %	0.0 %
Equity ratio	23,3%	4,6%	8,1 %	8.3 %	9.1 %
Return on equity	142,7%	-126,6%	-11,4 %	-5.1 %	-34.5 %
Average number of full-time employees	520	578	593	580	546

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

Management's review

Financial highlights for the Group

The financial ratios stated under "Financial highlights" have been calculated as follows:

Return on assets	$\frac{\text{Profit/loss before net financials x 100}}{\text{Average, totalled assets}}$
Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Equity ratio	$\frac{\text{Equity excl. non-controlling interests, year-end x 100}}{\text{Total equity and liabilities, year-end}}$
Return on equity	$\frac{\text{Profit/loss for the year excl. non-controlling interests x 100}}{\text{Average equity excl. non-controlling interests}}$

Management's review

Operating review

Principal activities

The STARCO Group is a leading European supplier of both low and high volume standard and tailor made complete wheels for a wide range of applications - from the smallest wheelbarrow or trailer, to large agricultural or industrial machines and equipment. Activities comprise manufacturing via own and associated companies in England, Croatia, Sri Lanka and China and sales & distribution handled by own entities in Europe.

STARCO is represented in 12 countries, generating a revenue in 2016 of DKK 830 million (EUR 112 million).

For more details about STARCO's activities and business and market strategies please visit starco.com. The Company is the parent company for the Group's sales and production entities. The Company sets the strategic guidelines ensuring an aligned long-term strategy covering the entire Group's priorities with regard of product, market and business development.

Development in activities and financial matters

Effective June 30th, STARCO and the German wholesaler, Bohnenkamp, carried through a transaction resulting in Bohnenkamp taking over STARCO's aftermarket operations in Scandinavia, Benelux and Germany. Bohnenkamp also took over aftermarket as well as OE customers in STARCO Eastern Group. Furthermore, STARCO took over Bohnenkamp's customers manufacturing high speed trailers.

The divestment was a natural outcome of STARCO's strategic decision to focus on its core capabilities in manufacturing and product development, and move away from the traditional trading business model. STARCO has already become an even stronger partner in wheel and tyre solutions for key OE customers. The agreement has strengthened the Company's financial position considerably and enabled further investments in the manufacturing set-up and strengthening of relations to existing and new customers.

Early in 2016, STARCO changed the organisational structure going away from a national focus to a cross border segment-driven approach. Second half of 2016 was used to integrate the business taken over from Bohnenkamp as well as preparing and aligning the organisation as well as the distribution and service set-up to the new segment-driven structure in STARCO.

The Group's income statement for 2016 shows a pre-tax result of DKK 139 million, a net result of DKK 104 million, and the balance sheet at December 2016 shows equity of DKK 120 million giving an equity ratio of 23%.

STARCO's net result is highly impacted by the divestment, and excluding the direct impact as well as the cost related to the required restructuring from the new and aligned business model, the Group's income statement shows an EBITDA of DKK 35.7 million.

The net result is in line with expectations and considered satisfactory.

The average number of employees in the entire group was 520 in 2016.

Investments

On group level, investments including the takeover from Bohnenkamp amount to DKK 85 million, primarily related to the acquisition from Bohnenkamp (goodwill and customers) as well as machinery and tooling in the factories.

Outlook

In 2017, STARCO will build on the new OEM growth strategy launched in 2016, with each segment having a focused go-to-market strategy, supporting business plan and dedicated segment sales team. The organisation, business processes and supplier base will be aligned further to ensure profitable growth.

Management's review

STARCO expects a positive operating income in 2017. The positive operating income and focus on net working capital will result in a positive cash flow for the year. STARCO anticipates further restructuring to give one-off costs that will generate a negative net result in 2017.

Risks

General risks

In general, it is STARCO's policy that all substantial risks are being identified and evaluated. The aim is to eliminate or reduce risks and management controls that individual entities do not actively speculate in any form of financial risk.

STARCO has established and implemented a global all-risk insurance policy as well as a product liability insurance to ensure that all legal entities in STARCO are adequately insured.

Credit risks

Throughout 2016, STARCO continued offering payment terms to the majority of the customers in Western Europe, while the overall credit risk is reduced considering the divestment of the activities in Eastern Europe.

Currency and interest rate risks

As STARCO's sales and sourcing activities are widely spread throughout the world, the fluctuation in relevant currencies affects the Company's financial results. STARCO uses financial instruments to reduce the risk of adverse developments in currencies.

Capital structure and liquidity risks

STARCO's financial planning is performed with the objective of ensuring sufficient liquid funds, while at the same time minimising the cost of capital.

The group is financed through uncommitted facilities in Danish and foreign banks, with whom the Company has a good and longstanding relationship and through subordinated loan capital, of which DKK 40.5 million contractually falls due on 31 December 2017.

Management has prepared liquidity budgets for 2017 that confirm that the Group has sufficient liquidity available to continuing the current business, including repayment of the subordinated loan that falls due in 2017. Management finds that the Group has sufficient liquidity available to continuing the current business.

Intellectual capital

The Group's intellectual capital is primarily linked to its substantial competences in developing, manufacturing and marketing wheels, tyres and complete assemblies for the customers. Furthermore, the STARCO brand has gained great respect, a large degree of recognition, and a strong reputation in the market for clever wheel and tyre solutions, and is today seen as a valuable asset to the Company.

Corporate Social Responsibility

STARCO has not developed a Corporate Social Responsibility strategy or policies for climate and human rights, but observes the environmental rules of the countries in which it operates. Again in 2016, further efforts were made to bring down the number of accidents at work, and the group safety policy has been further developed and implemented. Internally, this is an obvious focus area and STARCO has "Health and Safety" as the most important KPI. Furthermore, STARCO has continuous training sessions supported by the Danish development organisation Danida, focusing on safety and general CSR issues, with the employees in China and Sri Lanka as the need for such training and education is higher in these countries. STARCO's activities do not present any direct risk to the surrounding environment. In 2017, STARCO will launch its first CSR policy at group level. Follow progress at starco.com/csr.

Management's review

Gender Composition

The STARCO Group operates in activities and markets which primarily employ men. Currently, there are no women in the Board of Directors.

Currently, there is one woman of total six members in Group Management which is in line with the prior target.

The policy for female members on the Board of Directors as well as in Group Management is to include females in the search when a position is being replaced. The target is to have one woman at the Board of Directors and the new target is to have two women in Group Management before the end of 2018.

Research and development activities

STARCO is continuously investing in the development of new products and product improvements in order to meet specific customer demands within its target segments, whilst developing new technologies to improve the performance of the products and to reduce the cost to market.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Income statement

		Group		Parent	
Note	DKK'000	2016	2015	2016	2015
	Revenue	830,585	1,011,483	97,243	91,230
	Cost of sales	-582,383	-693,457	-95,902	-89,327
	Other external costs	-123,808	-126,904	-36,243	-26,436
	Gross margin	124,394	191,122	-34,902	-24,533
6	Staff cost	-130,446	-150,728	-29,911	-19,247
7	Other operating income	193,944	1,237	92,593	35,917
8	Amortisation/depreciation and impairment of intangible assets and property, plant and equipment	-23,062	-27,282	-3,209	-2,786
9	Other operating expenses	-5,747	0	-5	0
	Profit/loss before net financials	159,083	14,349	24,566	-10,649
	Share of net profit/loss in subsidiaries	-132	-122	89,629	-4,052
	Share of net profit/loss in associates	282	-6,661	282	-6,661
10	Financial income	4,035	863	5,954	3,400
11	Financial expenses	-24,682	-37,162	-15,242	-17,088
	Profit/loss before tax	138,586	-28,733	105,189	-35,050
12	Tax for the year	-34,737	-6,787	102	348
	Profit/loss for the year	103,849	-35,520	105,291	34,702

Breakdown of the consolidated results of operations:		
Shareholders, STARCO Europe A/S	105,291	-34,702
Non-controlling interests	-1,442	-818
	103,849	-35,520

Consolidated financial statements and parent company financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	Group 2016	Group 2015	Parent 2016	Parent 2015
	ASSETS				
	Non-current assets				
13	Intangible assets				
	Patents and licences	353	804	101	130
	Customers	8,665	0	0	0
	Goodwill	38,767	7,372	0	0
	Development projects in progress	2,939	0	1,924	0
		50,724	8,176	2,025	130
14	Property, plant and equipment				
	Land and buildings	61,292	115,031	0	0
	Leasehold improvements	2,110	3,160	0	0
	Fixtures and fittings, plant and equipment	80,254	87,237	9,298	6,549
	Prepayments for property, plant and equipment	426	584	0	0
		144,082	206,012	9,298	6,549
	Other non-current assets				
14	Investments in subsidiaries	0	0	256,272	239,098
15	Investments in associates	14,131	10,299	14,131	10,299
	Other receivables	37,481	92	37,464	97
		51,612	10,391	307,867	249,494
	Total non-current assets	246,418	224,579	319,190	256,173
	Current assets				
	Inventories				
	Finished goods and goods for resale	149,997	205,664	5,096	2,909
		149,997	205,664	5,096	2,909
	Receivables				
	Trade receivables	73,476	96,377	802	3,188
	Receivables from subsidiaries	0	0	111,646	55,366
	Receivables from associates	0	4,277	0	4,277
	Other receivables	32,664	23,489	24,743	786
	Tax receivable	960	1,306	0	437
	Deferred tax asset	94	15,046	0	0
	Prepayments	814	4,683	0	1,713
		108,008	145,178	137,191	65,767
	Cash	11,508	16,330	6	8
	Total current assets	269,513	367,172	142,293	68,684
	TOTAL ASSETS	515,931	591,751	461,483	324,857

Consolidated financial statements and parent company financial statements 1 January - 31 December

Balance sheet

Note	DKK'000	Group 2016	Group 2015	Parent 2016	Parent 2015
	EQUITY AND LIABILITIES				
	Equity				
17	Share capital	10,320	10,320	10,320	10,320
	Reserve for net revaluation according to the equity method	0	0	27,905	1,068
	Reserve for development costs	0	0	1,924	0
	Retained earnings	109,868	17,083	80,039	16,015
	Equity holders' share of equity, STARCO Europe A/S	120,188	27,403	120,188	27,403
	Non-controlling interests	16	1,513	0	0
	Total equity	120,204	28,916	120,188	27,403
	Non-current liabilities				
	Provision for pensions	907	3,933	0	0
18	Deferred tax	3,860	10,071	914	373
	Other provisions	0	1,764	6,186	0
19	Subordinated loan capital	10.535	57,190	10.535	56,220
19	Debt to credit institutions	24,911	34,864	0	0
	Payables to group entities	0	0	39,648	0
	Total non-current liabilities	40,213	107,822	57,283	56,593
	Current liabilities				
19	Debt to credit institutions and subordinated capital	47,333	37,347	40,460	0
	Other credit institutions	142,684	285,367	76,008	131,177
	Trade payables	103,896	86,264	26,586	6,203
	Prepayments received from customers	275	5,042	0	0
	Payables to subsidiaries	0	0	126,176	85,493
	Payables to associates	0	12,078	0	12,078
	Income taxes	23,475	2,312	0	0
	Other payables	37,851	26,603	14,782	5,910
	Total current liabilities	355,514	455,013	284,012	240,861
	Total liabilities	395,727	562,835	341,295	297,454
	TOTAL EQUITY AND LIABILITIES	515,931	591,751	461,483	324,857

1 Accounting policies
2 Capital structure and liquidity risks
3 Material recognition and measurement uncertainties
4 Special items included in operating profit/ loss
20 Contractual obligations and contingencies
21 Mortgages and collateral
23 Related parties

Consolidated financial statements and parent company financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Group: Share capital	Retained earnings	Dividend proposed for the year	Total	Non-controlling interests	Total equity
	Equity at 1 January 2015	10,320	43,470	0	53,790	2,254	56,044
24	Transfer, see Appropriation of profit/loss	0	-34,702	0	-34,702	-818	-35,520
	Foreign exchange adjustments, foreign subsidiary	0	6,994	0	6,994	77	7,071
	Value adjustment of hedging instruments, year-end	0	-2.587	0	-2,587	0	-2,587
	Reversal of value adjustment of hedging instruments, beginning of year	0	4,281	0	4,281	0	4,281
	Tax on equity transactions	0	-373	0	-373	0	-373
	Equity at 1 January 2016	10,320	17,083	0	27,403	1,513	28,916
24	Transfer, see Appropriation of profit/loss	0	105,291	0	105,291	-1,442	103,849
	Repurchase of shares	0	-7,961	0	-7,961	-55	-8,016
	Foreign exchange adjustments, foreign subsidiary	0	-6,465	0	-6,465	0	-6,465
	Value adjustment of hedging instruments, year-end	0	-126	0	-126	0	-126
	Reversal of value adjustment of hedging instruments, beginning of year	0	2,587	0	2,587	0	2,587
	Tax on equity transactions	0	-541	0	-541	0	-541
	Equity at 31 December 2016	10,320	109,868	0	120,188	16	120,204

Consolidated financial statements and parent company financial statements 1 January - 31 December

Statement of changes in equity

Note	DKK'000	Parent Share capital	Net revaluation acc. to the equity method	Reserve for development costs	Retained earnings	Dividend proposed for the year	Total
	Equity at 1 January 2015	10,320	0	0	43,470	0	53,790
	Transfer, see Appropriation of profit/loss	0	1,068	0	-35,770	0	-34,702
	Foreign exchange adjustments, foreign subsidiaries	0	0	0	6,994	0	6,994
	Value adjustment of hedging instruments, year-end	0	0	0	-2.587	0	-2.587
	Reversal of value adjustment of hedging instruments, beginning of year	0	0	0	4,281	0	4,281
	Tax on equity transactions	0	0	0	-373	0	-373
	Equity at 1 January 2016	10,320	1,068	0	16,015	0	27,403
24	Transfer, see Appropriation of profit/loss	0	39,103	1,924	64,264	0	105,291
	Repurchase of shares	0	0	0	-7,961		-7,961
	Foreign exchange adjustments, foreign subsidiary	0	0	0	-6,465	0	-6,465
	Value adjustments of hedging instruments at 31 December	0	0	0	-126	0	-126
	Reversal of value adjustment of hedging instruments, beginning of year	0	0	0	2,587	0	2,587
	Tax on equity transactions	0	0	0	-541	0	-541
	Equity at 31 December 2016	10,320	40,171	1,924	67,773	0	120,188

Consolidated financial statements and parent company financial statements 1 January - 31 December

Cash flow statement

Note	DKK'000	Group 2016	Group 2015
	Profit/loss before net financials	105,291	-34,702
	Cash generated from operations before changes in working capital	105,291	-34,702
25	Changes	-125,126	78,470
26	Changes in working capital	-8,406	47,400
	Cash generated from operations	-28,241	91,168
	Interest received	4,035	863
	Interest paid	-24,682	-37,162
	Income taxes paid	-4,487	-6,433
	Cash flows from operating activities	-53,375	48,436
	Acquisition of business from Bohnenkamp	-72,792	0
13	Acquisition of intangible assets	-538	-528
14	Acquisition of property, plant and equipment	-36,763	-23,011
	Acquisition of associates	-3,522	0
	Acquisition of other financial assets	-37,367	0
	Disposal of property, plant and equipment	35,283	4,461
	Proceeds from sale of Part of Special tyres and wheels business	353,567	0
	Cash flows from investing activities	237,868	-19,078
	Loan financing:		
	Repayment of non-current liabilities	-40,437	-9,713
	Contracting of long-term liabilities	-6,195	1,191
	Cash flows from financing activities	-46,632	-8,522
	Net cash flows	137,861	20,836
	Cash and cash equivalents, beginning of year	-269,037	-289,873
	Cash and cash equivalents, year-end	-131,176	-269,037

The cash flow statement cannot be directly derived from the other components of the consolidated financial statements.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies

The annual report of STARCO Europe A/S for 2016 has been prepared in accordance with the provisions in the Danish Financial Statements Act applying to large reporting class C entities.

Effective 1 January 2016, the Company has adopted act no. 738 of 1 June 2015. This implies changes in the recognition and measurement in the following areas:

1. Yearly reassessment of residual values of property, plant and equipment
2. Amortisation period, intangible assets
3. Reserve for development costs

Re 1: In future, residual values of property, plant and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment other than those relating to the Company's land. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions[1] with future effect only as a change in accounting estimates with no impact on equity.

Re 2: Intangible assets are amortised over the useful life of the assets. The amortisation period in respect of goodwill is 5-10 years.

Re 3: An amount corresponding to development costs recognised will, in future, be tied up in the Parent Company in a special reserve under equity called "Reserve for development costs". The amount is tied up in a special reserve, which cannot be used to distribute dividend or cover losses. If the development costs recognised are sold or in some other way no longer form part of the Company's operations, the reserve will be dissolved or reduced by a transfer directly to distributable reserves under equity. If the recognised development costs are written down, part of the reserve for development costs must be reversed. The reversed portion corresponds to the write-down of the development costs. If a write-down of the development costs is subsequently reversed, the reserve for development costs must be re-established. The reserve for development costs is also reduced by amortisation charges. In doing so, the equity reserve will not exceed the amount recognised in the balance sheet as development costs.

None of the above changes impacts on the income statement or the balance sheet for 2016 or the comparative figures.

In addition, the Company has decided to present its balance sheet in horizontal format where non-current and current assets and liabilities are broken down and comparative figures for 2015 are restated.

Apart from the above changes as well as new and changed presentation and disclosure requirements, which follow from act no. 738 of 1 June 2015, the accounting policies are consistent with those of last year.

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[1] The executive order on transitional provisions in connection with application of certain provisions in the Danish Financial Statements Act, as amended by act no. 738 of 1 June 2015 regarding amendments to the Danish Financial Statements Act and a number of other acts.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, STARCO Europe A/S, and subsidiaries in which STARCO Europe A/S directly or indirectly holds more than 50% of the voting rights or over which it otherwise exercises control. Entities in which the Group holds between 20% and 50% of the voting rights and over which it exercises significant influence, but which it does not control, are considered associates, see the group chart.

The consolidated financial statements have been prepared as a consolidation of the Parent Company's and the individual subsidiaries' financial statements, which are prepared according to the Group's accounting policies. On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains on intra-group transactions are eliminated. Unrealised gains on transactions with associates are eliminated in proportion to the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains in so far as they do not reflect impairment.

In the consolidated financial statements, the items of subsidiaries are recognised in full. Non-controlling interests' share of the profit/loss for the year and of the equity of subsidiaries which are not wholly-owned are included in the Group's profit/loss and equity, respectively, but are disclosed separately.

Business combinations

Recently acquired or formed entities are recognised in the consolidated financial statements from the date of acquisition or formation. Entities sold or otherwise disposed of are recognised in the consolidated income statement until the date of disposal. Comparative figures are not restated in respect of recently acquired or sold entities.

Gains or losses on disposal of subsidiaries and associates are made up as the difference between the sales price and the carrying amount of net assets at the date of disposal plus non-amortised goodwill and anticipated selling costs.

Corporate acquisitions are accounted for using the purchase method according to which the acquired entity identifiable assets and liabilities are measured at fair value at the date of acquisition. Restructuring costs recognised in the acquired entity before the date of acquisition and not agreed as part of the acquisition are part of the acquisition balance sheet and, hence, the calculation of goodwill. Costs relating to restructuring decided by the acquiring entity must be recognised in the income statement. The tax effect of the restatement of assets and liabilities is taken into account.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill) is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset.

Negative differences (negative goodwill) are recognised as income in the income statement at the time of acquisition when the general revenue recognition criteria are met.

Goodwill and negative goodwill from acquired enterprises can be adjusted until the end of the year following the year of acquisition.

Consolidated financial statements and parent company financial statements 1 January - 31 December

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1 Accounting policies (continued)

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables and payables and other monetary items denominated in foreign currencies are translated at closing rates. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Foreign subsidiaries and associates are considered separate entities. Items in such entities' income statements are translated at average exchange rates for the month, and balance sheet items are translated at closing rates. Foreign exchange differences arising on translation of the opening equity of foreign entities to closing rates and on translation of the income statements from average exchange rates to closing rates are taken directly to equity.

Foreign exchange adjustments of balances with separate foreign subsidiaries which are considered part of the total investment in the subsidiary are taken directly to equity. Foreign exchange gains and losses on loans and derivative financial instruments designated as hedges of foreign subsidiaries are also recognised directly in equity.

On recognition of foreign subsidiaries which are integral entities, monetary items are translated at closing rates. Non-monetary items are translated at the exchange rates at the acquisition date or at the date of any subsequent revaluation or impairment of the asset. Income statement items are translated at the exchange rates at the transaction date, although items derived from non-monetary items are translated at the historical exchange rates applying to the non-monetary items.

Derivative financial instruments

On initial recognition, derivative financial instruments are recognised in the balance sheet at cost and are subsequently measured at fair value. Positive and negative fair values of derivative financial instruments are included in other receivables and payables, respectively.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised in other receivables or other payables and in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity must be transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously recognised in equity must be transferred to the income statement in the period in which the hedged item affects the income statement.

Fair value adjustments of derivative financial instruments that do not qualify for hedge accounting are recognised in the income statement on a current basis.

Fair value adjustments of derivative financial instruments held to hedge net investments in separate foreign subsidiaries or associates are recognised directly in equity.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Income statement

Revenue

Income from the sale of goods for resale and finished goods, comprising of sales of tyres and wheels, is recognised in the income statement when delivery and transfer of risk to the buyer have taken place and provided that the income can be reliably measured and is expected to be received.

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

Other external costs

Other external costs include expenses related to distribution, sale, advertising, administration, premises, bad debts, lease payments under operating leases, etc.

Staff costs

Staff costs comprise wages and salaries, including holiday allowance and pensions, and other social security costs, etc., for the Company's employees. Refunds received from public authorities are deducted from staff costs.

Other operating income

Other operating income comprises items secondary to the entities' activities, including gains on disposal of intangible assets and items of property, plant and equipment.

Other operating expenses

Other operating expenses comprise items secondary to the entities' activities, including losses on disposal of intangible assets and items of property, plant and equipment.

Profit/loss from investments in subsidiaries and associates

The proportionate share of the profit/loss after tax of the individual subsidiaries is recognised in the income statement of the Parent Company after full elimination of intra-group profits/losses.

The proportionate share of the profit/loss after tax of associates is recognised in the income statement of both the Group and the Parent Company after elimination of the proportionate share of intra-group profits/losses.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Financial income and expenses

Financial income and expenses comprise interest income and expenses, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Tax for the year

The Parent Company is subject to the Danish rules on mandatory joint taxation of the Group's Danish subsidiaries. Subsidiaries are included in the joint taxation arrangement from the date when they are included in the consolidated financial statements and up to the date when they are no longer consolidated.

The Parent Company acts as management company for the joint taxation arrangement and consequently settles all corporate income tax payments with the tax authorities.

On payment of joint taxation contributions, the Danish corporate income tax charge is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have been able to use the tax losses to reduce their own taxable income.

The tax expense for the year, which comprises the year's current tax charge, joint taxation contributions and changes in the deferred tax charge - including changes arising from changes in tax rates - is recognised in the income statement as regards the portion that relates to the profit/loss for the year and directly in equity as regards the portion that relates to entries directly in equity.

Balance sheet

Intangible assets

Goodwill

Goodwill is amortised over the expected economic life of the asset, measured by reference to Management's experience in the individual business segments. Goodwill is amortised on a straight-line basis over the amortisation period, which is 5-10 years. The amortisation period is fixed on the basis of the expected repayment horizon, longest for strategically acquired business enterprises with strong market positions and long-term earnings profiles.

Customers

Customers recognised in the balance sheet regards acquired customer relations and are measured at cost less accumulated amortisation and impairment losses. Customers is amortised on a straight-line basis over the amortisation period, which is 7 years.

Development projects, patents and licences

Development costs comprise expenses, salaries and amortisation charges directly attributable to development activities.

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

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

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

On completion of a development project, development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 5 to 10 years.

Patents and licences are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining term of the patent, and licences are amortised over the term of the licence, however not exceeding 5 years.

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains and losses are recognised in the income statement as other operating income or other operating expenses, respectively.

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. Land is not depreciated.

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.

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	20-70 years
Fixtures and fittings, plant and equipment	3-10 years

The basis of depreciation is based on the residual value of the asset at the end of its useful life and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of acquisition and are reassessed every year. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognised.

In case of changes in the depreciation period or the residual value, the effect on the amortisation charges is recognised prospectively as a change in accounting estimates.

Depreciation is recognised in the income statement as production costs, distribution costs and administrative expenses, respectively.

Gains and losses on the disposal of items of property, plant and equipment are calculated as the difference between the selling price less costs to sell and the carrying amount at the date of disposal. Gains or losses are recognised in the income statement as other operating income or other operating expenses, respectively.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Leases

On initial recognition, leases for assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are measured in the balance sheet at the lower of fair value and the net present value of future lease payments. In calculating the net present value, the interest rate implicit in the lease or the incremental borrowing rate is used as discount factor. Assets held under finance leases are subsequently accounted for as the Company's other assets.

The capitalised residual lease liability is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

All other leases are considered operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The Company's total liabilities relating to operating leases and other leases are disclosed in contingencies, etc.

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured according to the equity method.

Investments in subsidiaries and associates are measured at the proportionate share of the enterprises' net asset values calculated in accordance with the Group's accounting policies minus or plus unrealised intra-group profits and losses and plus or minus any residual value of positive or negative goodwill determined in accordance with the acquisition method.

Investments in subsidiaries and associates with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such entities are written down in so far as the amount receivable is considered irrecoverable. If the Parent Company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluation of investments in subsidiaries and associates is recognised in the reserve for net revaluation according to the equity method in equity where the carrying amount exceeds cost. Dividends from subsidiaries which are expected to be declared before the annual report of STARCO Europe A/S is adopted are not taken to the net revaluation reserve.

On acquisition of subsidiaries, the acquisition method is applied, see Consolidated financial statements above.

Impairment of assets

The carrying amount of intangible assets and property, plant and equipment as well as investments in subsidiaries and associates is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation or amortisation.

Impairment tests are conducted on assets or groups of assets when there is evidence of impairment. Assets are written down to the lower of the carrying amount and the recoverable amount.

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the net present value of the expected net cash flows from the use of the asset or the group of assets and the expected net cash flows from the disposal of the asset or the group of assets after the end of the useful life.

Previously recognised impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct labour and production overheads. Indirect production overheads include the indirect cost of material and labour as well as maintenance and depreciation of production machinery, buildings and equipment and expenses relating to plant administration and management. Borrowing costs are not included in cost.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected selling price.

Receivables

Receivables are measured at amortised cost.

An impairment loss is recognised if there is objective evidence that a receivable or a group of receivables is impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognised on an individual basis.

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

Prepayments

Prepayments recognised under "Current assets" comprise expenses incurred concerning subsequent financial years.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Equity

Reserve for net revaluation according to the equity method

Net revaluation of investments in subsidiaries and associates is recognised at cost in the reserve for net revaluation according to the equity method.

The reserve can be eliminated in case of losses, realisation of investments or a change in accounting estimates.

The reserve cannot be recognised at a negative amount.

Reserve for development costs

The reserve for development costs comprises recognised development costs. The reserve cannot be used to distribute dividend or cover losses. The reserve will be reduced or dissolved if the recognised development costs are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Dividend

Dividend proposed for the year is recognised as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the year is disclosed as a separate item under equity.

Income tax and deferred tax

In its capacity as the administrative company, STARCO Europe A/S is liable for its subsidiaries' corporation taxes towards the tax authorities concurrently with the payment of joint taxation contribution by the subsidiaries.

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 contribution payable and receivable is recognised in the balance sheet as "Income tax receivable" or "Income tax payable".

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes or on office premises and other items where temporary differences, apart from business combinations, arise at the date of acquisition without affecting neither the profit/loss for the year nor the 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 base of tax loss carry-forwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

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

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

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Provisions

Provisions comprise anticipated expenses relating to warranty commitments, onerous contracts, restructuring, etc. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Provisions are measured at net realisable value or fair value. If the obligation is expected to be settled far into the future, the obligation is measured at fair value.

Liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Financial liabilities also include the capitalised residual obligation on finance leases.

Other liabilities are measured at net realisable value.

Deferred income

Deferred income, recognised under "Liabilities", comprises negative goodwill, see the description of consolidation practice above, and payments received concerning income in subsequent years.

Cash flow statement

The cash flow statement shows the Group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Group's 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 corporate acquisitions are recognised in the cash flow statement from the date of acquisition. Cash flows from disposals of entities are recognised up until the date of disposal.

Cash flows from operating activities

Cash flows from operating activities are calculated as the Group's share of the profit/loss adjusted for non-cash operating items, changes in working capital and income taxes paid.

Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of entities, activities and intangible assets, property, plant and equipment and financial assets.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

1 Accounting policies (continued)

Cash flows from financing activities

Cash flows from financing activities comprise changes in the size or composition of the Group's share capital and related costs as well as the raising of loans, repayment of interest-bearing debt, and payment of dividend to shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term marketable securities with a term of three months or less which are subject to only minor risks of changes in value.

2 Capital structure and liquidity risks

The group is financed through uncommitted facilities in Danish and foreign banks, with whom the Company has a good and longstanding relationship and through subordinated loan capital, of which DKK 40.5 million contractually falls due on 31 December 2017.

Management has prepared liquidity budgets for 2017 that confirm that the Group has sufficient liquidity available to continuing the current business, including repayment of the subordinated loan that falls due in 2017. Management finds that the Group has sufficient liquidity available to continuing the current business.

3 Material recognition and measurement uncertainties

Determining the carrying amount of certain assets and liabilities requires estimates of how future events will affect the value of these assets and liabilities at the balance sheet date. The volatility of the global economy and the financial markets make it difficult to forecast the development of future key assumptions - such as liquidity risk, credit risk and interest level, etc. Therefore, STARCO provides additional information about items in the consolidated financial statements and the parent company financial statements whose carrying amount is at risk of being adjusted considerably over the next few years.

Estimates which are significant for the preparation of the financial statements include goodwill, assessment of depreciation, amortization and impairment of non-current assets, measurement of deferred tax assets and measurement of inventories and trade receivables. The estimates used are based on Management assumptions which are assessed to be reliable, but which are inherently subject to uncertainty. Accordingly, the Company is subject to risks and uncertainties which may cause actual results to differ from these estimates.

Impairment of goodwill

In performing the annual impairment test of goodwill, an assessment is made of whether the individual units of the enterprise (cash generating units) to which goodwill relates will be able to generate sufficient positive net cash flows to support the value of goodwill and other net assets of the unit. Due to the nature of the Company's operations, estimates have to be made of expected cash flows for the coming 5 years, which will be subject to some degree of uncertainty. This uncertainty is reflected in the chosen discount rate.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

3 Material recognition and measurement uncertainties (continued)

Useful life and residual value of intangible and tangible assets

Intangible and tangible assets are measured at cost less accumulated amortisation, depreciation and impairment. Amortisation and depreciation are made on a straight-line basis over the useful lives of the assets, taking into account the asset's residual value. Expected useful lives and residual values are determined based on historical experience and expectations of the future use of the assets. The expectations for future use and residual values may not be met, which may lead to a future reassessment of useful lives and residual values and a need for impairment write-downs or the incurrence of losses on the disposal of the assets. The amortisation and depreciation periods used are described in the accounting policies, and the value of intangible and tangible assets is disclosed in notes 10, *Intangible assets* and 11, *Property, plant and equipment*.

Measurement of recognised tax assets

Deferred taxes, including the tax value of tax loss carryforwards, are recognised at their expected value. The assessment of deferred tax assets regarding tax loss carryforwards is based on the expected future taxable income of the respective units and the expiration date of the losses.

Measurement of inventories

Inventories are recognised at the lower of cost and net realisable value. The net realisable value of inventories is calculated based on the size of the inventory and decreases in the replacement cost of purchased raw materials, technical obsolescence (e.g. faulty products), physical obsolescence (e.g. damaged products) or financial obsolescence (e.g. reduced demand). Write-downs of inventories are based on an individual assessment of a product or product group and expected future product sales.

Provisions for bad debts on trade receivables and other receivables

Receivables are measured at amortised cost less provision for bad debts. Provisions for bad debts are based on an individual assessment of each receivable. If a customer's financial condition deteriorates, and thus the ability to meet the payment obligation to STARCO, further provisions may be required in future accounting periods.

Consolidated financial statements and parent company financial statements 1 January - 31 December

Notes

DKK'000	Group 2016	Group 2015	Parent 2016	Parent 2015
4 Special items				
Income				
Gain from sale of special tyres and wheels business	193,416	0	54,290	0
	193,416	0	54,290	0
Expenses				
Restructuring of remaining business	-21,302	-8,840	-6,948	0
Non-recurring costs regarding sale of part of the special tyres and wheels business	-7,283	0	-3,859	0
Impairment on receivable from associates	-12,672	0	-8,857	0
Loss from sale of building in France	-5,643	0	0	
	-46,900	-8,840	-19,664	0
Special items are recognised in the below financial statement items				
Cost of sales	-2,502	0	0	0
Staff costs	-17,036	-6,466	-3,610	0
Other operating income	193,416	0	54,290	0
Other external expenses	-21,719	-2,374	-16,054	0
Other operating expenses	-5,643	0	0	0
Profit/loss from special items	146,516	-8,840	34,626	0

The operating profit/loss is affected by special items related to the restructuring of STARCO and sale of part of the special tyres and wheels business.

Restructuring of STARCO is related to optimising the sales set-up as well as consolidation of production facilities.

Consolidated financial statements and parent company financial statements 1 January - 31 December

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5 Fees paid to auditors appointed at the annual general meeting

DKK'000	2016	2015
Total fee to EY	2,888	751
Fee for statutory audit	564	459
Fees for tax advisory services	1,013	219
Fee for other assurance engagements	29	0
Non-audit services	1,282	73
	2,888	751

6 Staff costs

	Consolidated		Parent company	
DKK'000	2016	2015	2016	2015
Analysis of staff costs:				
Wages and salaries	108,161	118,778	27,489	20,752
Pension costs	11,732	13,689	1,499	1,209
Other social security costs	7,832	10,420	161	0
Other staff costs	2,721	7,841	762	1,551
Reinvoiced salaries	0	0	0	-4,265
	130,446	150,728	29,911	19,247
Average number of full-time employees	520	578	19	16

Remuneration of the parent company's Executive Board of DKK 5,979 thousand (2015: DKK 2,106 thousand) and remuneration of the parent company's Board of Directors of DKK 1,587 thousand (2015: DKK 1,767 thousand) are included in staff costs.

7 Other operating income

Gain from sale of part of the special tyres and wheels business	193,416	0	54,290	0
Gain on sale of fixed assets	344	847	0	102
Lease income	184	390	0	303
Commission and royalty	0		38,303	35,512
	193,944	1,237	92,593	35,917

8 Amortisation, depreciation and impairment losses

	Group		Parent	
DKK'000	2016	2015	2016	2015
Intangible assets	6,144	6,382	63	81
Property, plant and equipment	16,918	20,900	3,146	2,705
	23,062	27,282	3,209	2,786

Consolidated financial statements and parent company financial statements 1 January - 31 December

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		Group		Parent	
	DKK'000	2016	2015	2016	2015
9	**Other operating expenses**				
	Loss on sale of fixed assets	5,747	0	5	0
		5,747	0	5	0
10	**Financial income**				
	Interest income from subsidiaries	0	0	2,226	2,920
	Foreign exchange gains	3,122	0	3,264	0
	Other interest income	913	863	464	480
		4,035	863	5,954	3,400482,92
11	**Financial expenses**				
	Interest expenses, subsidiaries	0	0	3,092	1,370
	Foreign exchange losses	0	7,589	0	176
	Other interest expenses	24,682	29,573	12,250	15,542
		24,682	37,162	15,242	17,088
12	**Tax for the year**				
	Current tax charge for the year	27,430	6,147	-643	-437
	Adjustment of the deferred tax charge for the year	7,307	640	541	0
	Changes due to prior year	0	0	0	89
		34,737	6,787	-102	-348
	Analysed as follows:				
	Tax for the year	34,196	7,160	-643	-721
	Tax on changes in equity	541	373	541	373
		34,737	6,787	-102	-348

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13 Intangible assets

	Group				
DKK'000	Patents	Customers	Goodwill	Development projects in progress	Total
Cost at 1 January 2016	4,814	0	43,134	0	47,948
Foreign currency adjustments, foreign entities	3	0	-290	0	-287
Additions	538	9,330	38,272	2,939	51,079
Disposals	-1,396	0	-26,716	0	-28,112
Transferred	0	0	0	0	0
Cost at 31 December 2016	3,959	9,330	54,400	2,939	70,628
Amortisation and impairment losses at 1 January 2016	4,010	0	35,762	0	39,772
Foreign currency adjustments, foreign entities	2	0	-215	0	-213
Impairment losses	0	0	0	0	0
Amortisation	442	665	5,037	0	6,144
Disposals	-848	0	-24,951	0	-25,799
Amortisation and impairment losses at 31 December 2016	3,606	665	15,633	0	19,904
Carrying amount at 31 December 2016	353	8,665	38,767	2,939	50,724
Amortised over	5 years	7 years	5-10 years	-	

Rationale for choice of goodwill amortisation periods and impairment test

STARCO NV, Belgium

Goodwill in STARCO Belgium irelates to the Bohnenkamp agreement. This goodwill is amortised over 10 years starting in 2016, which is in line with STARCO's accounting policy.

STARCO Polska Sp.zoo, Poland

Goodwill in STARCO Poland is amortised over 5 years starting in 2014. The period is in line with STARCO's accounting policy.

STARCO DML, UK

Goodwill in DML is amortised over 10 years starting in 2009. The period is in line with STARCO's accounting policy.

STARCO GS AG, Switzerland

Goodwill in STARCO GS is amortised over 5 years starting in 2014. The period is in line with STARCO's accounting policy.

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13 Intangible assets (continued)

	Parent		
DKK'000	Patents	Development projects in progress	Total
Cost at 1 January 2016	531	0	531
Additions	34	1,924	1,958
Transferred	0	0	0
Cost at 31 December 2016	565	1,924	2,489
Amortisation and impairment losses at 1 January 2016	401	0	401
Amortisation	63	0	63
Amortisation and impairment losses at 31 December 2016	464	0	464
Carrying amount at 31 December 2016	101	1,924	2,025
Amortised over	5 years	-	

Development projects in progress

Development projects relate to the industrial customers. The capitalised costs comprise mainly of internal salary costs as well as externally purchased material. All costs are registered in the internal project module. The booked value for the Group at 31 December 2016 is DKKk 2,939 (parent DKKk 1,924). The project is expected to be finalised in 2018; sale and marketing will start hereafter. The executive management expects further costs during 2017 and 2018 on this project.

In 2016, Management performed an impairment test of the carrying amount of ongoing development projects. It is assessed that the recoverable amount in the form of the value in use exceeds the carrying amount. The value in use is computed based on expected net cash flows on the basis of forecast for the years 2018-2021.

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14 Property, plant and equipment

	Group				
DKK'000	Land and buildings	Leasehold improvement	Fixtures and fittings, plant and equipment	Prepayment property, plant and equipment	Total
Cost at 1 January 2016	129,461	9,686	226,361	584	366,092
Exchange rate adjustment relating to foreign entities	-1,425	29	-3,689	4	-5,081
Additions	12,720	624	20,480	426	34,250
Transferred	1,705	-1,705	0	0	0,0
Disposals	-75,272	-1,740	-36,539	-588	-114,139
Cost at 31 December 2016	67,189	6,894	206,613	426	281,122
Depreciation and impairment losses at 1 January 2016	14,430	6,526	139,124	0	160,080
Exchange rate adjustment relating to foreign entities	-84	24	-2,559	0	-2,619
Depreciation	330	368	16,220	0	16,918
Transferred	1,324	-1,324	0	0	0
Disposals	-10,103	-810	-26,426	0	-37,339
Depreciation and impairment losses at 31 December 2016	5,897	4,784	126,359	0	137,040
Carrying amount at 31 December 2016	61,292	2,110	80,254	426	144,082
Items of property, plant and equipment include assets held under finance leases with a carrying amount totalling	635				
Depreciated over	20-70 years	3-5 years	3-10 years	-	

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14 Property, plant and equipment (continued)

	Parent	
DKK'000	Fixtures and fittings, plant and equipment	Total
Cost at 1 January 2016	19,437	19,437
Additions	6,061	6,061
Disposals	-672	-672
Cost at 31 December 2016	24,826	24,826
Depreciation and impairment losses at 1 January 2016	12,888	12,888
Depreciation	3,146	3,146
Disposals	-506	-506
Depreciation and impairment losses at 31 December 2016	15,528	15,528
Carrying amount at 31 December 2016	9,298	9,298
Depreciated over	3-10 years	

	Parent	
DKK'000	2016	2015
15 Investments in subsidiaries		
Cost at 1 January	278,520	297,528
Additions	112	0
Disposals	-61,153	0
Reclassification of cost and adjustments	0	-19,008
Cost at 31 December	217,479	278,520
Value adjustments at 1 January	-39,422	-54,368
Reclassification of cost and adjustments	0	19,008
Foreign exchange adjustment	-5,259	5,734
Dividend distribution	-7,949	-5,744
Profit/loss for the year	88,659	-4,052
Negative equity investments offset against receivables closing balance	3,041	0
Negative equity investments included in other provision	6,186	0
Disposals	-6,463	0
Value adjustments at 31 December	38,793	-39,422
Carrying amount at 31 December	256,272	239,098

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15 Investments in subsidiaries (continued)

Name and registered office	Voting rights and ownership
STARCO GB Ltd., UK	100%
STARCO GmbH, Germany	100%
STARCO Polska Sp.zoo, Poland	100%
STARCO NV, Belgium	100%
STARCO GS AG, Switzerland	100%
STARCO France	100%
STARCO Baltic Oü, Estonia	100%
STARCO Beli Manastir D.O.O., Croatia	100%
STARCO DML, UK	100%
STARCO Lanka (PVT) Ltd.	60,3%
Jelshøj Imovina D.O.O.	100%
W.M. SARL, France	100%
S.L.S.A, France	100%
STARCO Slovensko s.r.o, Slovakia	100%
STARCO S.R.L., Italy	100%
STARCO IPR GmbH, Switzerland	100%

DKK'000	Group 2016	Group 2015	Parent 2016	Parent 2015
16 Investments in associates				
Cost at 1 January	9,231	9,231	9,231	9,231
Additions	3,522	0	3,522	0
Cost at 31 December	12,753	9,231	12,753	9,231
Value adjustments at 1 January	1,068	940	1,068	940
Profit/loss for the year	283	-6,661	283	-6,661
Foreign currency adjustments, foreign entities	-1.213	1,603	-1,213	1,603
Negative equity investments offset against receivables opening balance	-5,186	0	-5,186	0
Negative equity investments offset against receivables closing balance	6,426	5,186	6,426	5,186
Value adjustments at 31 December	1,378	1,068	1,378	1,068
Carrying amount at 31 December	14,131	10,299	14,131	10,299

Name and registered office	Voting rights and ownership
STARCO ZA, South Africa	50,0 %
STARCO Huanmei, China	33,0 %

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17 Share capital

The share capital comprises:

10,319,917 class A shares of DKK 1 each.

The share capital has remained unchanged for the past five years.

	Group		Parent	
DKK'000	2016	2015	2016	2015
18 Deferred tax				
Deferred tax at 1 January	4,975	6,778	-373	0
Adjustment of the deferred tax charge for the year including currency effect	-8,200	-1,430	0	0
Tax on equity transactions	-541	-373	-541	-373
Deferred tax at 31 December	-3,766	4,975	-914	-373
Deferred tax is recognised in the balance sheet as follows:				
Deferred tax assets	94	15,046	0	0
Deferred tax liabilities	-3,860	-10,071	-914	-373
	-3,766	4,975	-914	-373

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DKK'000	Group 2016	Group 2015	Parent 2016	Parent 2015
19 Debt to mortgage credit institutions and other credit institutions				
Analysis of liabilities:				
Subordinated loan capital				
Long-term	10,535	57,190	10,535	56,220
Short-term	40,460	0	40,460	0
	50,995	57,190	50,995	56,220
Credit institutions				
Long-term	24,911	34,864	0	0
Short-term	6,873	37,347	0	0
	31,784	72,211	0	0
Total liabilities	82,779	129,401	50,995	56,220
The liabilities are recognised in the balance sheet as follows:				
Non-current liabilities	35,446	92,054	10,535	56,220
Current liabilities	47,333	37,347	40,460	0
	82,779	129,401	50,995	56,220
Non-current liabilities falling due more than five years after the financial year end (carrying amount)	2,313	22,936	0	10,760

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20 Contractual obligations and contingencies, etc.

Group

DKK'000	2016	2015
Other financial obligations		
Rent payments concerning interminable contract	57,627	66,212
Payments under operating leases concerning cars and computer equipment	4,491	6,522

Parent company

DKK'000	2016	2015
Other financial obligations		
Starco Europe A/S is liable for the rental obligation in the subsidiary Starco GmbH's new logistic centre in Winsen, Germany until April 2023	26,264	34,783
Guarantee to repay loan to IFU for Starco Lanka	3,464	5,301
Rent payments concerning interminable contract	1,495	4,190
Payments under operating leases concerning cars and computer equipment	616	0

The remaining terms are under 1 year.

Starco Europe A/S has agreed to provide financial support to Starco Nordic Pneu until at least 1 March 2018.

Joint taxation

The Company is jointly taxed with the Danish subsidiaries until 30 June 2016. The companies included in the joint taxation have joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties. The joint taxation is terminated in the financial year as a consequence of the disposal of Danish subsidiaries.

21 Mortgages and collateral

Group

There has been provided collateral for other credit institutions for land and buildings located in the UK, Croatia and Poland with a carrying amount of DKK 52,287 thousand.

The following assets have been put up as security for the Company's long term liabilities:
Plant and machinery at a nominal value of DKK 21,713 thousand, STARCO Beli Manastir D.O.O., Croatia.

STARCO GB has provided securities in a fixed charge on non-vesting debt and floating charge and debentures incorporating full fixed and floating charges over all UK assets to RBSIF bank. The assets nominal value total GBP 9,723 thousand.

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21 Mortgages and collateral (continued)

A charge on assets with a nominal value of EUR 7,000 thousand in STARCO NV has been put up as security for payables. The credit institution has acquired a right to obtain further charges on assets in the amount of EUR 500 thousand in STARCO NV. The Company has provided a Parent Company guarantee of EUR 4,500 thousand to the credit institution.

The Company has issued a guarantee to ING bank for credit facilities of EUR 4,500 thousand.

Further, STARCO Europe A/S has provided a guarantee as security for Jyske Bank's bank loans to the following subsidiaries:

STARCO NV, STARCO GmbH, STARCO DML Ltd. and STARCO IPR. The loans totalled DKK 135,000 thousand at 31 December 2016.

Parent Company

The Company has issued a guarantee for Jyske Bank's bank loans to the following subsidiaries: STARCO NV, STARCO GmbH, STARCO DML Ltd. and STARCO IPR. The loans totalled DKK 135,000 thousand at 31 December 2016.

The Company has issued a guarantee to ING bank for credit facilities for EUR 4,500 thousand.

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22 Currency and interest rate risks and use of derivative financial instruments

The Group uses forward exchange contracts as hedging instruments.

Forecast transactions

The Group uses forward exchange contracts to hedge expected currency risks relating to the sale and purchase of goods in the coming year.

		Contractual value		Gains and losses recognised in equity	
DKK'000	Period	2016	2015	2016	2015
Forward exchange contracts	0-6 months	447	175	272	-198

Interest rate risks

The Group has one interest rate swap to hedge interest rate risks, whereby floating interest payments are rescheduled into fixed interest payments.

	2016				2015			
DKK'000	Notional principal	Value adjust-ment recog-nised in equity	Fair value	Term to maturity	Notional principal	Value adjust-ment recog-nised in equity	Fair value	Term to maturity
Interest rate swaps	50,000	2,189	-573	3 months	50,000	1,892	-2,762	17 Months

The hedged cash flows are expected to be realised and will affect results of operations over the term to maturity of the interest rate swap.

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23 Related parties

Related party transactions

DKK'000	2016	2015
Group		
Sale of goods to associates	2,509	9,606
Purchase of goods from associates	32,962	29,890
Rent to shareholders	995	395
Interest income from associates	264	257
Interest expenses to shareholders	1,066	1,082
Receivables from associates	0	6,018
Payables to associates	15,062	12,078
Loan receivables from associates	0	9,027
Parent		
Sale of goods to subsidiaries	91,454	87,484
Purchase of goods from associates	32,962	29,890
Leasing income from subsidiaries	290	303
Rent to shareholders	995	395
Management fee from subsidiaries	22,237	25,938
Royalty from subsidiaries	6,910	0
Interest income from subsidiaries	2,226	3,131
Interest expenses to subsidiaries	2,976	2,294
Interest income from associated	0	257
Interest expenses to shareholders	1,066	1,082
Receivables from subsidiaries	63,590	14,005
Payables to subsidiaries	89,004	27,135
Receivables to associates	0	602
Payables to associates	15,062	12,078
Loan receivables from subsidiaries	51,097	54,535
Loan payables to subsidiaries	39,648	72,464
Loan receivables from associates	0	9,027

	Parent	
DKK'000	2016	2015
24 Appropriation of profit/loss		
Recommended appropriation of profit/loss		
Dividend proposed for the year, 0% (2015: 0%)	0	0
Transferred to reserves under equity	105,291	-34,702
	105,291	-34,702

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DKK'000	Group 2016	Group 2015
25 Changes in cash flow statement		
Amortisation/depreciation	28,465	26,435
Provisions	-2,147	-434
Income from investments	-150	6,783
Income from sales to Bohnenkamp	-214,648	0
Financial income	-4,035	-863
Financial expenses	21,585	37,161
Other changes	12,509	3,419
Tax for the year	34,737	6,787
Minority interests' share in the net profit/loss for the year	-1,442	-818
Total changes	-125,126	78,470

DKK'000	Group 2016	Group 2015
26 Changes in working capital		
Change in inventories	-8,091	54,185
Change in receivables	-44,833	4,750
Change in trade and other payables	44,518	-11,535
	-8,406	47,400