
Svend Hoyer A/S

Over Hadstenvej 42, DK-8370 Hadsten

Annual Report for 1 May - 31 December 2016

CVR No 17 63 06 95

The Annual Report was
presented and adopted at
the Annual General
Meeting of the Company on
17/5 2017

Henrik Petersen
Chairman



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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Svend Hoyer A/S for the financial year 1 May - 31 December 2016.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion the Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and of the results of the Company operations for the period 1 May - 31 December 2016.

We recommend that the Annual Report be adopted at the Annual General Meeting.

Hadsten, 17 May 2017

Executive Board

Thomas Skipper Klausen

Board of Directors

Johan Olof Cervin
Chairman

Michael Pontoppidan Frost

Denis Jean Jørgen Viet-
Jacobsen

Independent Auditor's Report

To the Shareholder of Svend Hoyer A/S

Opinion

In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2016 and of the results of the Company operations for the financial year 1 May - 31 December 2016 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Svend Hoyer A/S for the financial year 1 May - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("financial statements").

Basis for Opinion

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

Statement on Management's Review

Management is responsible for Management's Review.

Our opinion on the financial statements does not cover 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 Management's Review and, in doing so, consider whether 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 Management's Review provides the information required under the Danish Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

Management's Responsibilities for the Financial Statements

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

Independent Auditor's Report

ment, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the 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 about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it 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 financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism 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 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 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 Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a

Independent Auditor's Report

manner that gives a true and fair view.

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

Aarhus, 17 May 2017

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

Henrik Kragh
State Authorised Public Accountant

Claus Lyngsø Sørensen
State Authorised Public Accountant

Company Information

The Company

Svend Hoyer A/S
Over Hadstenvej 42
DK-8370 Hadsten

CVR No: 17 63 06 95
Financial period: 1 May - 31 December
Municipality of reg. office: Favrskov

Board of Directors

Johan Olof Cervin, Chairman
Michael Pontoppidan Frost
Denis Jean Jørgen Viet-Jacobsen

Executive Board

Thomas Skipper Klausen

Auditors

PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
Nobelparken
Jens Chr. Skous Vej 1
DK-8000 Aarhus C

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

| | 2016 kDKK 8 months | 2015/16 kDKK | 2014/15 kDKK | 2013/14 kDKK | 2012/13 kDKK |
|---|--------------------------|-----------------|-----------------|-----------------|-----------------|
| Key figures | | | | | |
| Profit/loss | | | | | |
| Revenue | 237.386 | 388.817 | 365.544 | 337.616 | 316.416 |
| Operating profit/loss | 9.786 | 43.499 | 19.669 | 19.976 | 14.719 |
| Net financials | -6.338 | -564 | 11.042 | -1.857 | -5.646 |
| Net profit/loss for the year | 2.279 | 33.953 | 26.640 | 14.474 | 6.734 |
| Balance sheet | | | | | |
| Balance sheet total | 262.175 | 304.314 | 344.677 | 260.752 | 213.108 |
| Equity | 73.204 | 131.599 | 99.908 | 69.449 | 55.644 |
| Investment in property, plant and equipment | 1.626 | 852 | 18.243 | 3.467 | 3.829 |
| Number of employees | 86 | 90 | 80 | 78 | 78 |
| Ratios | | | | | |
| Solvency ratio | 27,9% | 43,2% | 29,0% | 26,6% | 26,1% |
| Return on equity | 2,2% | 29,3% | 31,5% | 23,1% | 12,9% |

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

The financial year has been changed in 2016 so that the balance sheet day is 31 December. The financial year 2016 is therefore a shortened period of 8 months. The reason for the change is due to alignment with the new ultimate parent company.

Management's Review

Financial Statements of Svend Hoyer A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The Annual Report has been prepared under the same accounting policies as last year.

Main activity

As in previous years, the activities mainly consist of logistics and technical advice as well and sale and marketing of Hoyer Motors and Hoyer Transmissions.

Development in the year

The income statement of the Company for the period 1 May - 31 December 2016 shows a profit of DKK 2,279,335, and at 31 December 2016 the balance sheet of the Company shows equity of DKK 73,204,077.

Operating risks

The Company's main operating risks are related to the ability to be strongly positioned on the markets where the Company's products are sold and the ability to provide quick delivery.

Market risks

As a result of its operations, investments and financing, the Company is exposed to changes in currency exchange rates and interest rates. The Company applies a finance policy that operates with a low risk profile, so that currency, interest and credit risks only materialize on the basis of commercial circumstances.

The Company's use of derivative financial instruments has been regulated through internal procedures approved by the Board of Directors, which among others include maximum amounts and a specification of which derivative financial instruments may be used.

Foreign exchange risks

The Company is affected by changes in currency exchange rates, as goods purchased and the main part of the turnover is invoiced in a foreign currency, while the main part of the costs, including wages and salaries, are mainly paid in Danish Kroner.

Interest rate risks

The Company hedges the interest rate risk by means of the interest policy approved by the Board of Directors.

Management's Review

Credit risks

The Company's policy for assuming credit risks means that all customers and other business partners are credit rated on an ongoing basis.

Liquidity risks

The Company has credit facilities available exceeding the expected requirements of the Company.

Expected development

A positive outcome is expected for the year 2017 as compared to 2016, due to sales and operating initiatives taken during the year.

Statement of corporate social responsibility

No separate statement has been made for Svend Hoyer A/S. Please refer to the statement for Hoyer Group A/S.

Share of the underrepresented gender

The Company believes that employee diversity, including a gender balance, contributes positively to the work environment and strengthens the Company's performance and competitiveness.

Policies

The Company is continuously working on composing a management team where each member's qualifications complement the Company's strategic development in the best possible way.

It is the Company's policy not to discriminate and always appoint or recruit persons on the basis of their qualifications and match to the requested profile, regardless of gender, race, nationality or religious belief.

The Company is working on creating uniform conditions for leader aspirants, regardless of gender. It is aimed to achieve equal career opportunities for men and women through our employment and recruitment procedures and by the Company's investment in development and education.

The Board of Directors of Svend Hoyer A/S currently consists of three members elected by the general meeting, who are all men. A target has been set to include a female member in the Board of Directors before the end of 2020.

Uncertainty relating to recognition and measurement

Recognition and measurement in the Annual Report have not been subject to any uncertainty.

No extraordinary circumstances have taken place during the period, which have affected the profit for the

Management's Review

period significantly.

Unusual events

The financial position at 31 December 2016 of the Company and the results of the activities of the Company for the financial year for 2016 have not been affected by any unusual events.

Subsequent events

No events materially affecting the assessment of the Annual Report have occurred after the balance sheet date.

Income Statement 1 May - 31 December

| | Note | 1/5-2016 - 31/12-2016 DKK | 1/5-2015 - 30/4-2016 DKK |
|--|------|---------------------------------|--------------------------------|
| Revenue | | 237.385.782 | 388.817.495 |
| Expenses for raw materials and consumables | | -175.756.140 | -266.235.828 |
| Other external expenses | | -23.122.418 | -28.047.134 |
| Gross profit/loss | | 38.507.224 | 94.534.533 |
| Staff expenses | 1 | -26.715.995 | -43.248.000 |
| Depreciation and impairment of property, plant and equipment | | -1.985.395 | -5.902.936 |
| Other operating expenses | | -19.987 | -1.884.176 |
| Profit/loss before financial income and expenses | | 9.785.847 | 43.499.421 |
| Income from investments in subsidiaries | | -1.312.677 | 2.735.545 |
| Financial income | | 705.267 | 3.389.177 |
| Financial expenses | 2 | -5.730.532 | -6.688.395 |
| Profit/loss before tax | | 3.447.905 | 42.935.748 |
| Tax on profit/loss for the year | 3 | -1.168.570 | -8.982.729 |
| Net profit/loss for the year | | 2.279.335 | 33.953.019 |

Distribution of profit

Proposed distribution of profit

| | | |
|---|------------------|-------------------|
| Extraordinary dividend paid | 61.000.000 | 0 |
| Reserve for net revaluation under the equity method | -1.312.677 | 2.735.545 |
| Retained earnings | -57.407.988 | 31.217.474 |
| | 2.279.335 | 33.953.019 |

Balance Sheet 31 December

Assets

| | Note | 31/12-2016 DKK | 30/4-2016 DKK |
|--|------|--------------------|--------------------|
| Other fixtures and fittings, tools and equipment | | 5.520.799 | 6.062.782 |
| Property, plant and equipment | 4 | 5.520.799 | 6.062.782 |
| Investments in subsidiaries | 5 | 27.668.757 | 28.755.652 |
| Receivables from group enterprises | 6 | 1.665.492 | 1.655.640 |
| Other investments | 6 | 4.498 | 3.148 |
| Deposits | 6 | 694.314 | 640.349 |
| Fixed asset investments | | 30.033.061 | 31.054.789 |
| Fixed assets | | 35.553.860 | 37.117.571 |
| Finished goods and goods for resale | | 156.889.050 | 184.512.333 |
| Inventories | | 156.889.050 | 184.512.333 |
| Trade receivables | | 49.437.364 | 65.856.178 |
| Receivables from group enterprises | | 15.537.884 | 15.603.558 |
| Other receivables | | 124.220 | 67.741 |
| Deferred tax asset | 7 | 654.215 | 402.000 |
| Corporation tax | | 2.888.199 | 0 |
| Prepayments | 8 | 942.114 | 617.744 |
| Receivables | | 69.583.996 | 82.547.221 |
| Cash at bank and in hand | | 148.023 | 137.288 |
| Currents assets | | 226.621.069 | 267.196.842 |
| Assets | | 262.174.929 | 304.314.413 |

Balance Sheet 31 December

Liabilities and equity

| | Note | 31/12-2016 DKK | 30/4-2016 DKK |
|--|------|--------------------|--------------------|
| Share capital | | 1.000.000 | 1.000.000 |
| Reserve for net revaluation under the equity method | | 24.061.974 | 25.148.879 |
| Retained earnings | | 48.142.103 | 105.450.016 |
| Equity | 9 | 73.204.077 | 131.598.895 |
| Other provisions | 10 | 3.125.000 | 2.120.000 |
| Provisions | | 3.125.000 | 2.120.000 |
| Credit institutions | | 106.261.313 | 55.445.845 |
| Prepayments received from customers | | 754.586 | 433.205 |
| Trade payables | | 33.356.345 | 30.439.265 |
| Payables to group enterprises | | 33.424.252 | 59.358.237 |
| Corporation tax | | 0 | 8.055.979 |
| Other payables | 11 | 12.049.356 | 16.862.987 |
| Short-term debt | | 185.845.852 | 170.595.518 |
| Debt | | 185.845.852 | 170.595.518 |
| Liabilities and equity | | 262.174.929 | 304.314.413 |
| Contingent assets, liabilities and other financial obligations | 12 | | |
| Related parties | 13 | | |

Statement of Changes in Equity

| | Share capital | Reserve for net revaluation under the equity method | Retained earnings | Total |
|--|------------------|--|----------------------|-------------------|
| | DKK | DKK | DKK | DKK |
| Equity at 1 May | 1.000.000 | 25.148.869 | 105.450.026 | 131.598.895 |
| Exchange adjustments | 0 | 240.641 | 0 | 240.641 |
| Extraordinary dividend paid | 0 | 0 | -61.000.000 | -61.000.000 |
| Fair value adjustment of hedging instruments | 0 | 0 | 109.239 | 109.239 |
| Tax on adjustment of hedging instruments for the year | 0 | 0 | -24.033 | -24.033 |
| Other equity movements | 0 | -14.859 | 14.859 | 0 |
| Net profit/loss for the year | 0 | -1.312.677 | 3.592.012 | 2.279.335 |
| Equity at 31 December | 1.000.000 | 24.061.974 | 48.142.103 | 73.204.077 |

Notes to the Financial Statements

| | 1/5-2016 - 31/12-2016 DKK | 1/5-2015 - 30/4-2016 DKK |
|---|---------------------------------|--------------------------------|
| 1 Staff expenses | | |
| Wages and salaries | 24.203.141 | 39.667.093 |
| Pensions | 1.954.456 | 2.906.763 |
| Other social security expenses | 558.398 | 674.144 |
| | 26.715.995 | 43.248.000 |
| | | |
| Average number of employees | 86 | 90 |
| | | |
| Remuneration to the Executive Board has not been disclosed in accordance with section 98 B(3) of the Danish Financial Statements Act. | | |
| | | |
| 2 Financial expenses | | |
| Interest paid to group enterprises | 1.965.295 | 4.966.087 |
| Other financial expenses | 3.765.237 | 1.722.308 |
| | 5.730.532 | 6.688.395 |
| | | |
| 3 Tax on profit/loss for the year | | |
| Current tax for the year | 1.361.801 | 10.092.728 |
| Deferred tax for the year | -252.215 | -993.272 |
| Adjustment of tax concerning previous years | 83.017 | 0 |
| | 1.192.603 | 9.099.456 |
| | | |
| which breaks down as follows: | | |
| Tax on profit/loss for the year | 1.168.570 | 8.982.729 |
| Tax on changes in equity | 24.033 | 116.727 |
| | 1.192.603 | 9.099.456 |

Notes to the Financial Statements

4 Property, plant and equipment

| | Other fixtures and fittings, tools and equipment DKK |
|---|--|
| Cost at 1 May | 20.401.042 |
| Additions for the year | 1.625.880 |
| Disposals for the year | <u>-463.715</u> |
| Cost at 31 December | <u>21.563.207</u> |
| Impairment losses and depreciation at 1 May | 14.338.260 |
| Depreciation for the year | 1.985.395 |
| Impairment and depreciation of sold assets for the year | <u>-281.247</u> |
| Impairment losses and depreciation at 31 December | <u>16.042.408</u> |
| Carrying amount at 31 December | <u>5.520.799</u> |

5 Investments in subsidiaries

| | 31/12-2016 DKK | 30/4-2016 DKK |
|---------------------------------------|--------------------------|--------------------------|
| Cost at 1 May | <u>3.606.783</u> | <u>3.606.783</u> |
| Cost at 31 December | <u>3.606.783</u> | <u>3.606.783</u> |
| Value adjustments at 1 May | 25.148.869 | 24.261.320 |
| Exchange adjustment | 240.641 | -1.847.996 |
| Net profit/loss for the year | -1.312.677 | 2.735.545 |
| Other equity movements, net | <u>-14.859</u> | <u>0</u> |
| Value adjustments at 31 December | <u>24.061.974</u> | <u>25.148.869</u> |
| Carrying amount at 31 December | <u>27.668.757</u> | <u>28.755.652</u> |

Investments in subsidiaries are specified as follows:

| Name | Place of registered office | Votes and ownership | Equity | Net profit/loss for the year |
|---|-------------------------------|------------------------|------------|---------------------------------|
| Svend Hoyer Power Transmission (Ningbo) Co., Ltd (sub-group) | Ningbo, China | 100% | 27.668.757 | -1.312.677 |

Notes to the Financial Statements

6 Other fixed asset investments

| | Receivables from group enterprises <u>DKK</u> | Other investments <u>DKK</u> | Deposits <u>DKK</u> |
|--|--|------------------------------------|------------------------|
| Cost at 1 May | 1.655.640 | 20.635 | 640.349 |
| Additions for the year | <u>9.852</u> | <u>0</u> | <u>53.965</u> |
| Cost at 31 December | <u>1.665.492</u> | <u>20.635</u> | <u>694.314</u> |
| Impairment losses at 1 May | 0 | 17.487 | 0 |
| Reversal for the year of previous years' impairment losses | <u>0</u> | <u>-1.350</u> | <u>0</u> |
| Impairment losses at 31 December | <u>0</u> | <u>16.137</u> | <u>0</u> |
| Carrying amount at 31 December | <u>1.665.492</u> | <u>4.498</u> | <u>694.314</u> |

| | <u>31/12-2016</u> DKK | <u>30/4-2016</u> DKK |
|-----------------------------------|--------------------------|-------------------------|
| 7 Deferred tax asset | | |
| Property, plant and equipment | -315.415 | -402.000 |
| Amortization | -338.800 | 0 |
| Transferred to deferred tax asset | <u>654.215</u> | <u>402.000</u> |
| Deferred tax asset | <u>0</u> | <u>0</u> |
| Calculated tax asset | <u>654.215</u> | <u>402.000</u> |
| Carrying amount | <u>654.215</u> | <u>402.000</u> |

8 Prepayments

Prepayments consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

9 Equity

The share capital consists of 10,000 shares of a nominal value of DKK 100. No shares carry any special rights.

Notes to the Financial Statements

| | <u>31/12-2016</u> DKK | <u>30/4-2016</u> DKK |
|--|--------------------------|-------------------------|
| 10 Other provisions | | |
| The Company provides warranties on some of its products and is therefore obliged to repair or replace goods which are not satisfactory. Based on previous experience in respect of the level of repairs and returns, other provisions have been recognised for expected warranty claims. | | |
| Other provisions | 3.125.000 | 2.120.000 |
| | <u>3.125.000</u> | <u>2.120.000</u> |

11 Derivative financial instruments

Derivative financial instruments contracts in the form of interest caps have been concluded. At the balance sheet date, the fair value of derivative financial instruments amounts to:

| | <u>31/12-2016</u> DKK | <u>30/4-2016</u> DKK |
|-------------|--------------------------|-------------------------|
| Liabilities | 421.341 | 530.580 |

Interest cap contracts have been concluded to hedge future interest payments on floating rate loans. The contracts have a term of 1-4 years. Under the contracts, floating interest rates can not exceed a fixed rate of interest of 3,25 % on loans with a principal amount of DKK 89 million. The interest cap contract has been concluded for the entire remaining maturity period.

Notes to the Financial Statements

| | <u>31/12-2016</u> | <u>30/4-2016</u> |
|--|--------------------------|--------------------------|
| | DKK | DKK |
| 12 Contingent assets, liabilities and other financial obligations | | |
| Rental and lease obligations | | |
| Lease obligations under operating leases. Total future lease payments: | | |
| Within 1 year | 8.783.553 | 7.972.312 |
| Between 1 and 5 years | 35.915.114 | 34.313.978 |
| After 5 years | <u>47.959.673</u> | <u>52.102.141</u> |
| | <u>92.658.340</u> | <u>94.388.431</u> |
| Including to group enterprises | | |
| Rental and lease obligations | 81.269.513 | 85.214.941 |

Other contingent liabilities

The group companies are jointly and severally liable for tax on the jointly taxed incomes etc of the Group. The total amount of corporation tax payable is disclosed in the Annual Report of Hoyer Group A/S, which is the management company of the joint taxation purposes. Moreover, the group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Notes to the Financial Statements

13 Related parties

| | <u>Basis</u> |
|--|---|
| Controlling interest | |
| Xilos Co-Investment No. 1 Separate Limited Partnership Jersey United Kingdom | Majority shareholder of Hoyer Group A/S |
| Hoyer Group A/S Copenhagen Denmark | Majority shareholder of Svend Hoyer Holding A/S |
| Svend Hoyer Holding A/S Hadsten Denmark | Majority shareholder of Svend Hoyer A/S |

Transactions

Referring to section 98 C, litra 7 of the Danish Financial Statements Act, no information describing transactions with related parties is provided.

Consolidated Financial Statements

The company is included in the Group Annual Report of

| <u>Name</u> | <u>Place of registered office</u> |
|-----------------|-----------------------------------|
| Hoyer Group A/S | Copenhagen |

Notes, Accounting Policies

Basis of Preparation

The Annual Report of Svend Hoyer A/S for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied remain unchanged from last year.

Financial Statements for 2016 are presented in DKK.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Hoyer Group A/S, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Hoyer Group A/S, the Company has not prepared a cash flow statement.

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Exchange differences arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement. Where foreign exchange transactions are considered hedging of future cash flows, the value adjustments are recognised directly in equity.

Notes, Accounting Policies

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the rates at the time when the receivable or the debt arose are recognised in financial income and expenses in the income statement.

Fixed assets acquired in foreign currencies are measured at the transaction date rates.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as "Other receivables" and "Other payables", respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement unless the derivative financial instrument is designated and qualify as hedge accounting, see below.

Hedge accounting

Changes in the fair values of derivative financial instruments that are designated and qualify as hedges of expected future transactions are recognised in retained earnings under equity as regards the effective portion of the hedge. The ineffective portion is recognised in the income statement. If the hedged transaction results in an asset or a liability, the amount deferred in equity is transferred from equity and recognised in the cost of the asset or the liability, respectively. If the hedged transaction results in an income or an expense, the amount deferred in equity is transferred from equity to the income statement in the period in which the hedged transaction is recognised. The amount is recognised in the same item as the hedged transaction.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

In accordance with section 96(1) of the Danish Financial Statements Acts, disclosures on revenue broken down by business segments are not provided as the Company's Executive Board and Board of Directors assess that such disclosures would be very detrimental to the Company.

Notes, Accounting Policies

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue recognised.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses other than wages.

Depreciation and impairment losses

Depreciation and impairment losses comprise depreciation and impairment of property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Income from investments in subsidiaries

The item "Income from investments in subsidiaries" in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Notes, Accounting Policies

Balance Sheet

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Other fixtures and fittings, tools and equipment 3-10 years

Depreciation period and residual value are reassessed annually.

Assets costing less than DKK 12,900 are expensed in the year of acquisition.

Impairment of fixed assets

The carrying amounts of property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by depreciation.

If so, the asset is written down to its lower recoverable amount.

Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item "Investments in subsidiaries" in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to "Reserve for net revaluation under the equity method" under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Notes, Accounting Policies

Other fixed asset investments

Other fixed asset investments consist of deposits and other investments.

Inventories

Inventories are measured at the lower of cost under the FIFO method and net realisable value.

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale equals landed cost.

Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts.

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Provisions

Provisions are recognised when - in consequence of an event occurred before or on the balance sheet date - the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation.

Other provisions include warranty obligations in respect of repair work within the warranty period. Provisions are measured and recognised based on experience with guarantee work.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the de-

Notes, Accounting Policies

ferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the loan made over the term of the loan at the date of raising the loan.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Financial Highlights

Explanation of financial ratios

Solvency ratio

$$\frac{\text{Equity at year end} \times 100}{\text{Total assets at year end}}$$

Return on equity

$$\frac{\text{Net profit for the year} \times 100}{\text{Average equity}}$$