Emitec Denmark A/S
Haraldsvej 60, 2.
DK-8960 Randers SØ

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Emitec Denmark A/S

Annual report 2016

The annual report was presented and adopted at the Company's annual general meeting

on 31 May 2017

chairman

CVR no. 29 19 57 14

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Emitec Denmark 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 financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations for the financial year 1 January – 31 December 2016.

Further, in our opinion, the Management's review gives a fair review of the matters discussed in the Management's review.

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

Randers, 31 May 2017
Executive Board:

Finn Frederiksen

Board of Directors:

Heiko Frank Eber Chairman	Martin Kohn	Finn Frederiksen

Independent auditor's report

To the shareholders of Emitec Denmark A/S

Opinion

We have audited the financial statements of Emitec Denmark A/S for the financial year 1 January – 31 December 2016, comprising income statement, balance sheet and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company's assets, liabilities and financial position at 31 December 2016 and of the results of the Company's operations 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 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 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 responsibility 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 that Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the 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.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements in Denmark will always detect a material misstatement when it exists. Misstatements may 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 financial statement users made 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 judgement and maintain professional scepticism throughout the audit. We also

- identify and assess the risks of material misstatement of the 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 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 manner that gives a true and fair view

Independent auditor's report

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 financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

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

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

Aalborg, 31 May 2017
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Steffen S. Hansen
State Authorised
Public Accountant

Management's review

Company details

Emitec Denmark A/S
Haraldsvej 60, 2.
DK-8960 Randers SØ

Telephone:	+45 87 12 58 00
Fax:	+45 87 12 58 19
Website:	www.emitec.com
CVR no.:	29 19 57 14
Established:	2 December 2005
Registered office:	Randers
Financial year:	1 January – 31 December

Board of Directors

Heiko Frank Eber (chairman)
Martin Kohn
Finn Frederiksen

Executive Board

Finn Frederiksen

Auditor

KPMG
Statsautoriseret Revisionspartnerselskab
Østre Havnegade 18
DK-9000 Aalborg

Annual general meeting

The annual general meeting will be held on 9 June 2017.

Management's review

Operating review

Principal activities

Emitec Denmark A/S is engaged in the production, marketing and sale of pumping systems for air cleaning in diesel engines.

Development in activities and financial position

Profit for the year before tax came in at DKK 20,468 thousand as against DKK 33,387 thousand in 2015.

Profit before tax for 2016 is as expected.

Uncertainty

In 2010 the Company transferred rights relating to customer base and knowledge of existing products. The recognition of the intercompany receivable and the deferred tax liability relating to the transfer relies on revenue from the transferred customer base and knowledge in the years 2010-2018. Furthermore, the Company is a party to a pending tax case related to valuation, which may reduce tax paid in earlier years.

Outlook

For the 2017 financial year, profit is expected to be in line with 2016.

Events after balance sheet date

No extraordinary events have occurred after the balance sheet date

Financial statements 1 January – 31 December

Income statement

	Note	2016	2015
Gross profit		7,893,961	6,657,575
Staff costs	2	-8,071,102	-5,336,929
Depreciation of non-current assets		-186,848	-220,403
Operating profit/loss		-363,990	1,100,243
Financial income	3	21,692,634	32,950,462
Financial expenses		-860,213	-663,389
Profit before tax		20,468,431	33,387,316
Tax on profit for the year	4	-8,959,044	-29,499,003
Profit for the year		11,509,387	3,888,313

Proposed profit appropriation		
Retained earnings	11,509,387	3,888,313
	11,509,387	3,888,313

Financial statements 1 January – 31 December

Balance sheet

	Note	2016	2015
ASSETS			
Property, plant and equipment			
Fixtures and fittings, tools and equipment		194,563	344,334
Leasehold improvements		0	37,076
		194,563	381,410
Investments			
Deposits		71,676	71,676
		71,676	71,676
Total non-current assets		266,239	453,086
Receivables			
Receivables from group entities	5	322,958,202	363,186,091
Other receivables		161,534	97,840
Deferred taxes	6	2,641	0
		323,122,377	363,283,931
Cash at bank and in hand		287,319	15,765,651
Total current assets		323,409,696	379,049,582
TOTAL ASSETS		323,675,935	379,502,668

Financial statements 1 January – 31 December

Balance sheet

	Note	2016	2015
EQUITY AND LIABILITIES			
Equity			
Share capital	7	1,903,416	1,903,416
Retained earnings		309,143,114	297,633,728
Total equity		311,046,530	299,537,144
Provisions			
Deferred tax	6	9,000,000	10,272
Total provisions		9,000,000	10,272
Current liabilities other than provisions			
Trade payables		179,545	189,211
Other payables		3,036,184	1,161,914
Payables to intercompany		413,676	413,677
Corporation tax	4	0	78,190,450
		3,629,405	79,955,252
Total liabilities other than provisions		3,629,405	79,955,252
TOTAL EQUITY AND LIABILITIES		323,675,935	379,502,668

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Financial statements 1 January – 31 December

Equity

	Share capital	Retained earnings	Total
Equity at 1 January 2016	1,903,416	297,633,727	299,537,143
Profit for the year	0	11,509,387	11,509,387
Balance at 31 December 2016	1,903,416	309,143,114	311,046,530

Financial statements 1 January – 31 December

Notes

1 **Accounting policies**

The annual report of Emitec Denmark A/S for 2016 has been presented in accordance with the provisions applying to reporting class B entities under the Danish Financial Statements Act.

As from 1 January 2016, the Company has implemented Act no. 738 of 1 June 2015. This has entailed the following changes to recognition and measurement:

- Going forward, the residual value of property, plant and equipment must be reassessed on an ongoing basis. Pursuant to the transition provisions of the Act, any adjustments to residual values must be made prospectively as an accounting estimate without restatement of comparative figures and without effect on equity.

The changes have no monetary effect on the income statement or the balance sheet for 2016 or on the comparative figures.

Apart from the above, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

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 rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. 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 income statement as financial income or financial expenses.

Income statement

Gross profit

In accordance with section 32 of the Danish Financial Statements Act, revenue and other external costs are aggregated in the financial statement caption "Gross profit".

Revenue

Revenue from the sale of services is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place and that the income can be reliably measured and is expected to be received.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Revenue is measured at the fair value of the agreed consideration, excluding VAT and taxes charged on behalf of third parties. All discounts granted are deducted from revenue.

Other external costs

Other external expenses comprise expenses incurred during the year for expenses for Management, administration, development, and distribution including office premises and office expenses and depreciation.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Financial income and expenses comprise interest income and interest expense, realised and unrealised gains in foreign currencies.

Tax on profit/loss for the year

The Company is covered by the Danish rules on compulsory joint taxation of the Continental Group's Danish companies. Subsidiaries form part of the joint taxation from the date on which they are included in the consolidated financial statements and to the date on which they exit the consolidation.

Current Danish corporation tax is allocated by the settlement of joint taxation contribution between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carryforwards receive joint taxation contributions from companies that have used these losses to reduce their own taxable profits.

Tax for the year comprises joint taxation contributions for the year and changes in deferred tax for the year - due to changes in the tax rate. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Balance sheet

Property, plant and equipment

Fixtures and fittings, tools and equipment and leasehold improvements are measured at cost less accumulated depreciation and impairment losses.

Financial statements 1 January – 31 December

Notes

1 **Accounting policies (continued)**

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date on which the asset is available for use.

The estimated useful lives are as follows:

Fixtures and fittings, tools and equipment	3-5 years
Leasehold improvements	3-5 years

The useful life and residual value are reassessed annually. Changes are treated as accounting estimates, and the effect on depreciation is recognised prospectively.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the selling price less selling costs 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 costs, respectively.

Deposits

Deposits are measured at the lower of amortised cost and net realisable value, which corresponds to nominal value.

Receivables

Receivables are measured at amortised cost. Write-down is made for bad debt losses based on an individual assessment of receivables.

The basis of depreciation is cost less any projected residual value after the end of the useful life.

Corporation tax and deferred tax

In accordance with the joint taxation rules, the liability within the joint taxation entity for the payment of corporation taxes to the tax authorities is settled concurrently with the payment of joint taxation contribution to the administrative company.

Joint taxation contributions receivable and payable are recognised in the balance sheet as balances with group entities.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax value of assets and liabilities. However, deferred tax is not recognised on temporary differences relating to goodwill which is not deductible for tax purposes and on office premises and other items where temporary differences, apart from

Financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

business combinations, arise at the date of acquisition without affect in either profit/loss for the year or tax able income. Where alternative tax rules can be applied to determine the tax value, deferred tax is measured based on the planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carryforwards are recognised under receivables 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 the elimination of unrealised intra-group profits and losses.

Deferred tax is measured in accordance with 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.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the 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.

Other liabilities are measured at net realisable value.

Financial statements 1 January – 31 December

Notes

		2016	2015
2	**Staff costs**		
	Wages and salaries	7,459,040	4,931,603
	Pensions	354,194	350,290
	Other social security costs	204,808	55,036
	Other staff costs	53,060	0
		8,071,102	5,336,929
	Average number of employees	7	7

3	**Financial income**		
	Interest income from group entities	21,692,634	32,227,976
	Other interest income	0	722,486
		21,692,634	32,950,462

4	**Tax on profit for the year**		
	Current tax for the year	-28,043	247,476
	Adjustment of deferred tax	4,787,087	-16,986
	Adjustment current and deferred tax in respect of previous years	4,200,000	29,268,513
		8,959,044	29,499,003

5 **Intercompany receivables**

The intercompany receivable is mainly related to an earn-out agreement from the intercompany transfer. Out of the intercompany receivable from the earn-out, no part will be paid out within one year.

6	**Deferred tax**		
	Deferred tax at 1 January	-10,272	-27,258
	Deferred tax for the year	12,913	16,986
		2,641	-10,272

Financial statements 1 January – 31 December

Notes

7 Share capital

The share capital consists of 1,903,416 shares of DKK 1.

The share capital is specified as follows:

Share capital on foundation at 2 December 2005	500,000
Capital increase at 15 December 2006	895,000
Capital increase at 31 December 2007	505,416
Capital increase at 20 May 2008	1,000
Capital increase at 28 November 2008	1,000
Capital increase at 11 December 2009	1,000
	1,903,416

8 Contractual obligations, contingencies, etc.

Contractual obligations

At the balance sheet date, yearly rental obligations represented DKK 295 thousand for the period of interminability. The rental agreement is interminable until 30 July 2017.

Contingencies, etc.

The Company is covered by the Danish rules on compulsory joint taxation of the Continental Group's Danish companies. As a wholly-owned subsidiary in the Continental Group, the Company has joint and several unlimited liability for Danish corporation taxes and withholding taxes on dividends, interest and royalties within the joint taxation entity. Any subsequent corrections of joint taxation income or withholding taxes may entail an increase in the Company's liability.

Financial statements 1 January – 31 December

Notes

9 Related parties

Emitec Denmark A/S' related parties comprise the following:

Continental Emitec Verwal-tungs GmbH, Hauptstrasse 128, 53797 Lohmar, Germany.

Continental Emitec Verwal-tungs GmbG. holds the majority of the share capital in the Company

Furthermore, related parties comprise affiliated companies, the Company's Board of Directors and Executive Board and executive employees.

Emitec Denmark A/S is part of the consolidated financial statements of Continental Emitec Verwal-tungs GmbH, registered office, which is the smallest group in which the Company is included as a subsidiary.

The consolidated financial statements of Continental Emitec Verwal-tungs GmbH can be obtained by contacting the Company or at the following website: www.emitec.com.

Related party transactions

The Company has chosen only to disclose transactions that are not carried out on an arm's length basis in accordance with section 98c(7) of the Danish Financial Statements Act.