CNH Industrial Danmark A/S

Arnold Nielsens Boulevard 140, 2650, Hvidovre

CVR no 56 09 88 28

Annual report for 2016

Adopted at the annual general meeting
on 24 March 2017

Peter Sørensen
Chairman

Contents

Statement by Management on the annual report

The Supervisory Board and the Executive Board have today discussed and approved the annual report of CNH Industrial Danmark A/S for the financial year 1 January - 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 Company's financial position at 31 December 2016 and of the results of the 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 the adoption of the annual report at the annual general meeting.

Copenhagen, 22 March 2017

Executive Board

Peter Friis
chief executive officer

Supervisory Board

Peter Sørensen Chairman	Peter Friis	Lars Beck

Independent auditor's report

To the shareholder of CNH Industrial Danmark A/S

Opinion

We have audited the financial statements of CNH Industrial Danmark A/S for the financial year 1 January - 31 December 2016, which comprise an income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant 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 financial position of the Company at 31 December 2016 and of the results of the Company's and cash flows 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 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 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 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.

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 the 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 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 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.

Statement on 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 Management's Review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Independent auditor's report

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

Based on our procedures, 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.

Copenhagen, 22 March 2017

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

Mogens Andreasen	Dennis Dupont
state authorised public accountant	state authorised public accountant

Company details

CNH Industrial Danmark A/S
Arnold Nielsens Boulevard 140
2650
Hvidovre

CVR-no.	56 09 88 28
Financial year:	1 January - 31 December
Domicile:	Hvidovre

Supervisory Board
Peter Sørensen
Peter Friis
Lars Beck

Executive Board
Peter Friis, chief executive officer

Ownership control
CNH Industrial Europe Holding S.A.

Auditors
ERNST & YOUNG
Godkendt Revisionspartnerselskab
c/o Postboks 250, Osvald Helmuths Vej 4
DK-2000 Frederksberg

Lawyers
Lund Elmer Sandager Advokatpartnerselskab
Kalvebodbrygge 39-41
DK-1560 Copenhagen

Bankers
Danske Bank
Holmens Kanal
DK-1060 Copenhagen

Consolidated financial statements

The Company is included in the group annual report of CNH Industrial N.V.

The group annual report of CNH Industrial N.V. may be obtained at the following address:

25, St. James's Street
London, SW1A 1HA
United Kingdom

Financial highlights

5-year summary:

	2016	2015	2014	2013	2012
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Revenue	1,228,866	896,253	821,229	902,881	740,341
Gross profit	101,679	89,446	96,620	88,710	74,620
Profit/loss before financial income and expenses	29,797	29,992	40,468	36,723	19,993
Net financials	-25,789	-16,374	-17,162	-18,469	-14,612
Profit/loss for the year	3,043	10,418	17,581	13,677	4,050
Balance sheet total	477,333	381,450	281,984	281,408	199,733
Investment in property, plant and equipment	217	2,076	853	382	985
Equity	98,152	93,812	83,396	65,817	52,140
Number of employees	43	40	40	35	33
Financial ratios					
Gross margin ratio	8.3%	10.0%	11.8%	9.8%	10.1%
Solvency ratio	20.6%	24.6%	29.6%	23.4%	26.1%
Return on equity	3.2%	11.8%	23.6%	23.2%	8.1%

The financial ratios are calculated in accordance with the Danish Finance Society's recommendations and guidelines. For definitions, see the summary of significant accounting policies.

Management's review

Business activities

Via a dealer network in Denmark, CNH Industrial Danmark A/S sells and services a product program comprising New Holland and Case IH tractors, harvesters, hay and forage machines as well as New Holland and Case construction equipment and related spare parts program.

Outlook

The Company expect increasing activity level in 2017 mainly due to entering the Swedish market and expected increase in farm income.

Financing

Financial review

The profit development in the financial year has not met the expectations of the management due to a declining demand for both agricultural and construction machines and spare parts. The demand for agricultural machines was affected by the farmers' continuos declining earnings due to low market prices for their products. In 2016 the company has established a dealer network in Sweden. Servicing the Swedish market has had a positive effect on the activity in 2016. Management has maintained the level of investment in optimizing our service and support of dealers and customers.

Profit for the year amounts to tDKK 3,043 after tax, against profit tDKK 10,418 in 2015.

Statutory report on corporate social responsibility

Human resource

CNH Industrial Danmark A/S does not have a local CSR policy, including human rights, environment and climate. The Company is a subsidiary of CNH Industrial Group. Every year CNH Industrial Group publishes a full CSR report, which is published after the supervisory board's approval of the annual report of CNH Industrial Danmark A/S and will be available on

http://www.cnhindustrial.com/en-us/sustainability/corporate_sustainability_reports/reports/CNH_Industrial_2015_Sustainability_Report.pdf

Management's review

Statutory report on the underrepresented gender

CNH Industrial Danmark A/S strives to recruit the most suitable Supervisory Board members, managers and employees regardless of gender, race or religion. Our recruiting and employee policy reflects this practice.

The supervisory board has set a target of the underrepresented gender to be 1 member of the supervisory board. It is the aim of the supervisory board to achieve this target before end of 2017. There has been no replacement on the board in 2016. Currently the underrepresented gender is 0 board members.

CNH Industrial Danmark A/S has a non-discrimination equal rights policy focusing on competencies in relation to job profiles on all managerial levels. Men and women have equal opportunities within the Company. The policy sets the framework for the individual career development and guidelines of recruiting and retention of managers. Specifically this relates to:

- Support of individual career plans
- Mentor and sparring opportunities
- Employee policy that promotes equal career opportunities for both genders.

The proportions of the female/male managers has been unchanged in 2016.

Income statement 1 January - 31 December

	Note	2016	2015
		TDKK	TDKK
Revenue	1	**1,228,866**	**896,253**
Cost of sales		-1,127,187	-806,807
Gross profit		**101,679**	**89,446**
Distribution costs	2	-66,378	-52,949
Administrative expenses	2	-5,504	-6,505
Operating profit		**29,797**	**29,992**
Financial income	3	8,024	1,583
Financial costs	4	-33,813	-17,957
Profit/loss before tax		**4,008**	**13,618**
Tax on profit/loss for the year	5	-965	-3,200
Net profit/loss for the year		**3,043**	**10,418**
Distribution of profit	6		

Balance sheet 31 December

	Note	2016	2015
		TDKK	TDKK
Assets			
IP rights		1,346	1,933
Intangible assets	7	**1,346**	**1,933**
Other fixtures and fittings, tools and equipment		2,349	3,375
Tangible assets	8	**2,349**	**3,375**
Fixed assets total		**3,695**	**5,308**
Finished goods and goods for resale		34,335	25,389
Stocks		**34,335**	**25,389**
Receivables from group entities		426,650	345,452
Other receivables		6,359	3,189
Deferred income	9	6,294	2,112
Receivables		**439,303**	**350,753**
Current assets total		**473,638**	**376,142**
Assets total		**477,333**	**381,450**

Balance sheet 31 December

	Note	2016 TDKK	2015 TDKK
Liabilities and equity			
Share capital		12,000	12,000
Other reserves		1,297	0
Retained earnings		84,855	81,812
Equity	10	**98,152**	**93,812**
Provision for deferred tax	11	202	401
Other provisions	12	20,875	17,137
Provisions total		**21,077**	**17,538**
Trade payables		134,415	77,861
Payables to group entities		170,446	149,837
Other payables	13	53,243	42,402
Short-term debt		**358,104**	**270,100**
Debt total		**358,104**	**270,100**
Liabilities and equity total		**477,333**	**381,450**
Subsequent events	14		
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Equity

	Share capital	Other reserves	Retained earnings	Total
Equity at 1 January 2016	12,000	0	81,812	93,812
Fair value adjustment of hedging instruments	0	1,297	0	1,297
Net profit/loss for the year	0	0	3,043	3,043
Equity at 31 December 2016	**12,000**	**1,297**	**84,855**	**98,152**

Cash flow statement 1 January - 31 December

	Note	2016	2015
		TDKK	TDKK
Net profit/loss for the year		3,043	10,418
Adjustments	20	32,323	22,725
Change in working capital	21	-7,913	-14,038
Cash flows from operating activities before financial income and expenses		**27,453**	**19,105**
Interest income and similar income		9,686	1,583
Interest expenses and similar charges		-33,813	-17,957
Cash flows from ordinary activities		**3,326**	**2,731**
Corporation tax paid		-3,109	-652
Cash flows from operating activities		**217**	**2,079**
Purchase of property, plant and equipment		-217	-2,079
Cash flows from investing activities		**-217**	**-2,079**
Change in cash and cash equivalents		**0**	**0**
Cash and cash equivalents, beginning of year		0	0
Cash and cash equivalents, end of year		**0**	**0**

Notes

		2016 TDKK	2015 TDKK
1	**Revenue**		
	Business segmentation of revenue:		
	Resale to agriculture, Denmark	716,592	696,512
	Resale to industry, Denmark	93,746	102,033
	Resale to agriculture, Sweden	412,267	97,708
	Resale to industry, Sweden	6,261	0
	Total revenue	**1,228,866**	**896,253**

		2016 TDKK	2015 TDKK
2	**Staff costs**		
	Wages/salaries	31,358	28,474
	Pensions	2,971	2,343
	Other social security costs	98	137
		34,427	**30,954**
	Staff costs are recognised in the following line items		
	Distribution costs	868	929
	Administrative expenses	33.559	30.025
		34,427	**30,954**
	Including remuneration to the Executive	**1,572**	**1,398**
	Average number of employees	43	40

		2016 TDKK	2015 TDKK
3	**Financial income**		
	Interest received, from group entities	0	53
	Exchange gains	8,024	1,530
		8,024	**1,583**

Notes

	2016	2015
	TDKK	TDKK
4 Financial costs		
Financial expenses, group entities	24,704	16,099
Other financial costs	95	42
Exchange loss	8,816	1,816
Currency forwards	198	0
	33,813	**17,957**
5 Tax on profit/loss for the year		
Current tax for the year	1,121	3,323
Adjustment of tax concerning previous years	43	0
Adjustment of deferred tax	-199	-123
	965	**3,200**

	2016	2015
	TDKK	TDKK
6 Distribution of profit		
Retained earnings	3,043	10,418
	3,043	**10,418**

7 Intangible assets

	IP rights
Cost at 1 January 2016	5,690
Cost at 31 December 2016	5,690
Impairment losses and amortisation at 1 January 2016	3,756
Amortisation for the year	588
Impairment losses and amortisation at 31 December 2016	4,344
Carrying amount at 31 December 2016	**1,346**

Notes

8 Tangible assets

	Other fixtures and fittings, tools and equipment
Cost at 1 January 2016	10,943
Additions for the year	217
Cost at 31 December 2016	11,160
Impairment losses and depreciation at 1 January 2016	7,568
Depreciation for the year	1,243
Impairment losses and depreciation at 31 December 2016	8,811
Carrying amount at 31 December 2016	**2,349**

9 Prepayments

Prepayments include accrual of expenses relating to subsequent financial years and includes rent and lease liabilities, interest expenses and other prepayments.

10 Equity

The share capital consists of:

12,000 shares of TDKK 1	12,000
	12,000

None of the shares are special priviliged
The Company’s share capital has remained TDKK 12,000 over the past 5 years.

Notes

	2016	2015
	TDKK	TDKK
11 Provision for deferred tax		
Provision for deferred tax at 1 January	-401	-523
Adjustment for the year	199	122
Provision for deferred tax at 31 December	**-202**	**-401**

The deferred tax charge all relates to other fixtures and fittings, tools and equipment and is expected to be used within the next 5 years.

	2016	2015
	TDKK	TDKK
12 Other provisions		
Balance at 1 January	17,137	13,365
Adjustment	1,733	2,995
Provision in the year	21,989	17,750
Applied in the year	-19,984	-16,973
Balance at 31 December	**20,875**	**17,137**

Other provisions comprise provisions for waranty commitments. Warranty provisions relate to expected warranty expenses in accordance with usual guarantee commitments applicable to the sale of goods.

	2016	2015
	TDKK	TDKK
13 Other payables		
VAT and other indirect taxes	42,552	34,597
Wages/salaries, salary taxes, social security contributions, etc.	2,616	2,717
Compensated absence	4,866	4,385
Other accrued expenses	3,209	703
	53,243	**42,402**

Notes

14 Subsequent events

CNH Industrial N.V. has after the balance sheet date acquired the agricultural Grass and Soil implement business of Kongskilde Industries, part of the Danish Group, Dansk Landbrugs Grovvareselskab (DLG A.m.b.A.). Part of this business is placed in CNH Industrial Danmark A/S. The business will sell and service solutions for agricultural applications in the Tillage, Seeding and Hay & Forage segments under various brands, including Kongskilde, Överum and JF.

No other events have occured after the balance sheet date, which would influence the evaluation of this annual report.

	2016 TDKK	2015 TDKK
15 Rental agreements and lease commitments		
Operating lease commitments. Total future lease payments:		
	800	724
	800	**724**

16 Contingent assets, liabilities and other financial obligations

Other financial obligations
The company is jointly taxed with Iveco Danmark A/S which acts as management company, and is jointly and severally with other jointly taxed group entities for payment of income taxes for the income year 2013 onwards as well as withholding taxes on interest, royalties and dividens falling due for payment on or after 1 July 2012.

17 Financial instruments

The company uses currency forward contracts for hedging purposes, in order to reduce currency risks for the sale in SEK for the next 12 months. At the year end there was open contracts for tSEK 399.000. The net fair value of these contracts were tDKK 1.297 at the year-end (2015: tDKK 0).

Notes

18 Related parties and ownership

Controlling interest

CNH Industrial N.V.
25, St. James's Street
London, SW1A 1HA
United Kingdom

Related party transactions

There has been no transations with the parent company.

Remunerations to executives are included in note 2.

	2016 TDKK	2015 TDKK
Purchase of goods from group companies	1,065,159	721,714
Purchase of services from group companies	18,335	9,105
Interest paid to group companies	24,704	16,099
Sale of goods to group companies	1,851	4,629
Receivables from group companies	426,650	345,452
Payables to group companies	170,447	149,837

19 Fee to auditors appointed at the general meeting

	2016 TDKK	2015 TDKK
ERNST & YOUNG:		
Audit fee	125	87
Tax assistance	0	19
Non-audit services	0	21
	125	**127**

Notes

20 Cash flow statement - adjustments

Financial income	-8,024	-1,583
Financial costs	33,813	17,957
Depreciation	1,830	1,568
Change in provisions	3,738	3,772
Change in deferred income taxes	-199	-122
Tax on profit/loss for the year	1,165	1,133
	32,323	**22,725**

21 Cash flow statement - change in working capital

	2016 TDKK	2015 TDKK
Inventory	-8,946	19,899
Group receivables/payables	-60,589	-72,677
Trade payables	8,896	5,924
Other receivables/payables	52,726	32,816
	-7,913	**-14,038**

Accounting policies

The annual report of CNH Industrial Danmark 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.

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:

Yearly reassessment of residual values of property, plant and equipment.

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 with future effect only as a change in accounting estimates with no impact on equity.

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

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.

The annual report for 2016 is presented in Danish kroner.

Basis of recognition and measurement
Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company's 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 from the company's and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

Accounting policies

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report are presented and which confirm or invalidate matters existing at the balance sheet date.

Income statement

Segment information

Information is provided on business segments and geographical markets. The segment information is provided in consideration of the company's accounting policies, risks and management control.

Revenue

Revenue from the sale of goods for resale and finished goods is recognised in the income statement, provided that the transfer of risk, usually on delivery to the buyer, has taken place and that the income can be measured reliably and is expected to be received.

Revenue is measured at fair value of the agreed consideration ex. VAT and taxes charged on behalf of third parties. Revenue is net of all types of discounts granted.

Cost of sales

Cost of sales includes the cost of goods used in generating the year's revenue, adjusted for ordinary inventory write-downs.

Distribution costs

Distribution costs include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, including expenses related to sales staff etc.

Administrative expenses

Administrative expenses include expenses incurred in the year for purposes of managing and administering the company. including expenses relating to administrative staff, management, office premises/expenses as well as amortisation/depreciation of assets used for administrative purposes.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of property, plant and equipment.

Accounting policies

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit/loss for the year

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

The entity and its Danish Group entities are taxed on a joint basis. The Danish income tax charge is allocated between profit-making and loss-making Danish entities in proportion to their taxable income (full allocation method).

Jointly taxed companies entitled to a tax refund are, as a minimum, reimbursed by the management company according to the current rates applicable to interest allowances, and jointly taxed companies having too little tax pay, as a maximum, a surcharge according to the current rates applicable to interest surcharges to the management company.

Balance sheet

Intangible assets

IP rights

Other intangible assets include software licenses.

Other intangible assets are measured at cost less accumulated amortisation and impairment losses.

Software licenses are amortised on a straight-line basis over the estimated useful life. The amortisation period is five years.

Tangible assets

Items of fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Accounting policies

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

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

The basis of depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the time of aquisition 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 ammortisation period or the residual value, the effect on the depreciation charges is recognised prospectively as a change in accounting estimates.

Leases
Leases that do not transfer substantially all the risks and rewards incident to the ownership to the Company are classified as operational 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 aggregate liabilities relating to operating leases and other leases are disclosed under contigencies.

Impairment of fixed assets
The carrying amount of fixed assets is reviewed for impairment, other than what is reflected through normal amortisation and depreciation, on an annual basis.

Where there are indications of impairment, an impairment test is performed for each individual asset or group of assets, respectively. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

Stocks
Stocks are measured using the FIFO method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The cost of goods for resale, raw materials and consumables comprises the purchase price plus delivery costs.

The net realisable value of stocks is calculated as the selling price less costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Accounting policies

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 is impaired, an impairment loss for that individual asset is recognised.

Receivables for which there is no objective indication of individual impairment are reviewed for impairment on a portfolio basis. The portfolios are primarily composed on the basis of debtors' domicile and credit ratings in accordance with the Company's credit risk management policy. The objective indicators used for portfolios are determined based on historical loss experience.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received, using the effective interest rate of individual receivables or portfolios of receivables as discount rate.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term securities whose remaining life is less than three months and which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

Provisions

Provisions comprise expected expenses relating to guarantee commitments. Provisions are recognised when as a result of a past event the company's has a legal or constructive obligation 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 at fair value if the obligation concerned is expected to be settled far into the future.

Guarantee commitments comprise expected cost of repairs within the guarantee period and are recognised based on previous experience with work performed under guarantees.

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Accounting policies

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Liabilities

Liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Foreign-exchange differences arising between the exchange rates at the transaction date and at the date of payment are recognised in the income statement as financial income or financial expenses. If foreign currency transactions are considered cash flow hedges, the value adjustments are taken directly to equity.

Derivative financial instruments

Derivative financial instruments are used for hedging purposes, in order to reduce currency risks. Derivative financial instruments qualify for hedge accounting only when at the inception of the hedge there is formal designation and documentation of the hedge relationship, the hedge is expected to be highly effective, its effectiveness can be reliably measured and it is highly effective throughout the financial reporting periods for which it is designated.

All derivative financial instruments are measured at fair value.

When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:
Cash flow hedges - Where a derivative financial instruments is designated as a hedge of the exposure to variability in future cash flows of a recognized asset or liability or a highly probable forecasted transaction and could affect profit or loss, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in other reserves under the equity. The cumulative gain or loss is removed from the equity and recognized in profit or loss at the same time as the economic effect arising from the hedged item affects income. The gain or loss associated with a hedge or part of a hedge that has become ineffective is recognized in profit or loss immediately. When a hedging instrument or hedge relationship is terminated but the hedged transaction is still expected to occur, the cumulative gain or loss realized to the point of termination remains in the equity and is recognized in profit or loss at the same time as the underlying transaction occurs. If the hedged transaction is no longer probable, the cumulative unrealized gain or loss held in the equity is recognized in profit or loss immediately.

Accounting policies

If hedge accounting cannot be applied, the gains or losses from fair value measurement of derivative financial instruments are recognized immediately in profit or loss.

The fair value of forward contracts are calculated by taking the prevailing exchange rate and interest rates in the two currencies at the balance sheet date.

The valuation techniques take into consideration also the credit quality of counterparties that, at December 31, 2016 is not significant.

Cash flow statement

The cash flow statement shows the Company's cash flows for the year, broken down under cash flows from operating, investing and financing activities, the year's changes in cash and cash equivalents and the Company's cash and cash equivalents at the beginning and at the end of the year.

Cash flows from operating activities

Cash flows from operating activities are stated as the profit or loss for the year, adjusted for non-cash operating items, changes in working capital and paid income taxes.

Cash flows from investing activities

Cash flows from investing activities comprise payments related to the acquisition and sale of entities and activities, intangible assets, property, plant and equipment and investments.

Cash flows from financing activities

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

Cash and cash equivalents

Cash and cash equivalents comprise cash and short-term securities whose remaining life is less than three months and which are readily convertible into cash and which are subject only to insignificant risks of changes in value.

Accounting policies

Financial Highlights

Definitions of financial ratios.

Gross margin ratio	$\frac{\text{Gross Profit x 100}}{\text{Revenue}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$