

Niebuhr Gears A/S

La Cours Vej 8, 7430 Ikast

CVR no. 71 15 07 12



Annual report 2016

Approved at the Company's annual general meeting on 27 April 2017

Chairman:



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Building a better
working world

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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 Niebuhr Gears A/S for the financial year 1 January - 31 December 2016.

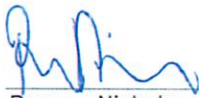
The annual report has been prepared in accordance with the Danish Financial Statements Act.

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

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

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

Ikast, 27 April 2017
Executive Board:



Rasmus Niebuhr

Board of Directors:



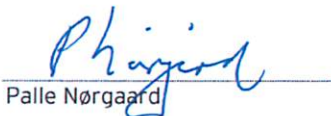
Per Thy Sørensen
Chairman





Søren Bøgesgaard Niebuhr



Mogens Filtenberg



Palle Nørgaard


Else Rasmussen
Employee representative
Michael Sørensen
Employee representative

Independent auditor's report

To the shareholders of Niebuhr Gears A/S

Opinion

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

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

Basis for opinion

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

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

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

In preparing the consolidated financial statements and the parent company financial statements, Management is responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements unless Management either intends to liquidate the Group or the Parent Company or to cease operations, or has no realistic alternative but to do so.

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

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

Independent auditor's report

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

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

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

Statement on the Management's review

Management is responsible for the Management's review.

Our opinion on the consolidated financial statements and the parent company financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

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

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

Independent auditor's report

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

Aarhus, 27 April 2017
ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28



Claus Hammer-Pedersen
State Authorised
Public Accountant



Jane Haugaard
State Authorised
Public Accountant

Management's review

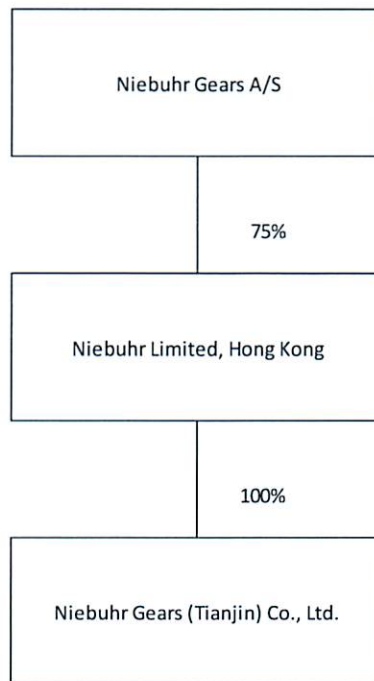
Company details

Name	Niebuhr Gears A/S
Address, zip code, city	La Cours Vej 8 DK-7430 Ikast
CVR no.	71 15 07 12
Established	29 June 1982
Registered office	Ikast-Brande
Financial year	1 January - 31 December
Website	www.niebuhr.dk
E-mail	niebuhr@niebuhr.dk
Telephone	+45 96 60 50 50
Board of Directors	Per Thy Sørensen Søren Bøgesgaard Niebuhr Mogens Filtenborg Palle Nørgaard Else Rasmussen Michael Sørensen
Executive Board	Rasmus Niebuhr
Auditors	Ernst & Young Godkendt Revisionspartnerselskab Værkmestergade 25 DK-8000 Aarhus C

Management's review

Group chart

The Niebuhr Group



Management's review

Financial highlights for the Group

DKK'000	2016	2015	2014 (6 months)	2013/14	2012/13
Key figures					
Gross profit	46,986	26,730	7,483	23,510	19,721
Operating profit	30,035	11,737	1,042	9,935	7,279
Profit before tax	26,449	9,185	942	1,119	2,041
Profit/loss for the year	18,987	6,043	2,056	1,131	-1,521
Fixed assets	138,238	146,181	144,158	146,644	163,086
Non-fixed assets	122,048	119,106	86,203	90,968	83,384
Total assets	260,286	265,287	230,361	237,612	246,470
Equity	84,977	72,878	66,498	63,737	62,842
Non-controlling interests	7,691	6,655	4,673	3,021	3,582
Provisions	1,894	165	0	479	354
Non-current liabilities	80,729	82,450	87,755	93,901	109,692
Current liabilities	84,995	103,139	71,435	76,474	70,000
Cash flows from operating activities	58,706	7,748	9,405	19,077	36,604
Net cash flows from investing activities	-16,271	-23,708	-5,189	-8,148	-19,370
Cash flows from financing activities	-12,488	-12,816	-7,958	-15,580	-8,926
Total cash flows	29,947	-28,776	-3,742	-4,651	8,308
Portion relating to investments in items of property, plant and equipment	16,914	26,418	5,750	7,274	13,454
Financial ratios					
Return on invested capital	11.4%	4.7%	0.9%	4.1%	2.8%
Solvency ratio	32.6%	27.5%	28.9%	26.8%	25.5%
Return on equity	24.1%	8.7%	6.3%	1.8%	-2.3%
Average number of full-time employees	159	161	160	147	142

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

The financial ratios stated in the survey of financial highlights have been calculated as follows:

Return on invested capital	$\frac{\text{Operating profit} \times 100}{\text{Average invested capital}}$
Invested capital	Operating intangible assets and property, plant and equipment plus net working capital
Solvency ratio	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$
Return on equity	$\frac{\text{Profit after tax} \times 100}{\text{Average equity}}$

Management's review

Operating review

Principal activities of the Company

The Niebuhr Group is a contract manufacturer, which produces gear wheels for the industry.

The Group's customers are domiciled in Scandinavia, Northern and Southern Europe, Asia, Brazil and the USA.

The Group has its own production facilities in Denmark and China.

Development in activities and financial matters

The activities are divided into two main segments:

- ▶ "Industrial Gears" producing gears between 1 cm and 1.5 meters.
- ▶ "Heavy Duty" producing gears up to 5 meters in diameter.

"Industrial Gears" only has production in Denmark.

Customer segments are within the building industry, the agricultural sector, gear manufacturers, pump manufacturers, truck manufacturers and many more.

The turnover for "Industrial Gears" increased by 35% for the period. The growth is primarily gained from the export market, where the domestic sales are at a stable level.

The manufacturing capacity has been utilized at a very high level, leading to an improved financial result.

In order to be able to increase even further, then new investments in machines and automation are being implemented.

The activities in "Industrial Gears" is expected to increase again in the coming year.

"Heavy Duty" comprises production in Denmark and China.

The customer segment is primarily within the wind turbine sector and marine sector.

The turnover for "Heavy Duty" increased by 35% for the period

The manufacturing capacity has been utilized on a very high level.

The price pressure in the market is strong, and investments in more automation are being implemented, to keep Niebuhr's globally leading position in the market.

The Group has invested heavily in new buildings and machinery in Denmark as well as in China, and this is expected to continue in the coming years.

Result

The Group's share of profit for the financial year amounted to DKK 19.0 million (DKK 6.0 million in 2015).

The improved results of operation are entirely due to the fully utilized production capacity in "Industrial Gears".

Investments

In 2016, the Group invested a total of DKK 17.8 million in new machines and building expansions.

Management's review

Operating review

Outlook

The Group expects a minor decrease in the results of operations for 2017.

To meet the expected higher activity at current and new customers, and remain competitive on the global market, Niebuhr Group expects to invest DKK 61 million in buildings, new technology and increased capacity in 2017.

Particular risks

Liquidity risks

The Group's cash reserves comprise cash at bank and credit facilities agreed with major credit institutions. The Group regularly assesses cash and capital resources, in particular in relation to investments in China.

Foreign currency risks

The Group does not engage in speculative foreign currency transactions and is solely engaged based on commercial needs.

Credit risks

The Group's maximum credit risks correspond to the value of trade receivables which are recognised in the balance sheet. The Group's policy in respect of credit risks implies that all major customers and other co-operators are credit-rated on an ongoing basis.

Price risks

The Group takes on usual price risks on products purchased and sold. The possibilities of transferring price increases to sales prices depend on market conditions, etc.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Income statement

Note	DKK'000	Consolidated		Parent company	
		2016	2015	2016	2015
	Gross profit	46,986	26,730	33,764	14,319
	Distribution costs	-5,144	-3,940	-3,355	-2,720
	Administrative expenses	-11,807	-11,053	-8,572	-7,678
	Operating profit	30,035	11,737	21,837	3,921
7	Share of profit/loss in subsidiaries after tax	0	0	3,997	5,139
2	Financial income	2,264	3,434	2,348	1,953
3	Financial expenses	-5,850	-5,986	-5,003	-4,803
	Profit before tax	26,449	9,185	23,179	6,210
4	Tax on profit for the year	-6,044	-1,489	-4,192	-167
	Profit for the year	20,405	7,696	18,987	6,043
	Non-controlling interests' share of the results of subsidiaries	-1,418	-1,653	0	0
	The Group's share of profit for the year	18,987	6,043	18,987	6,043
	Proposed profit appropriation				
	Extraordinary dividends distributed in the year			6,000	0
	Reserve for net revaluation under the equity method			3,997	3,657
	Retained earnings			8,990	2,386
				18,987	6,043

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Balance sheet

Note	DKK'000	Consolidated		Parent company	
		2016	2015	2016	2015
	ASSETS				
	Fixed assets				
5	Intangible assets				
	Software rights	1,244	711	1,244	711
		<u>1,244</u>	<u>711</u>	<u>1,244</u>	<u>711</u>
6	Property, plant and equipment				
	Land and buildings	45,286	46,174	45,286	46,174
	Plant and machinery	78,815	84,697	51,463	54,797
	Fixtures and fittings, tools and equipment	3,416	1,754	3,415	1,754
	Leasehold improvements	3,997	4,601	2,255	2,995
	Property, plant and equipment under construction	5,180	8,044	5,180	5,771
		<u>136,694</u>	<u>145,270</u>	<u>107,599</u>	<u>111,491</u>
	Investments				
7	Investments in subsidiaries	0	0	23,074	19,965
	Securities	300	200	300	200
		<u>300</u>	<u>200</u>	<u>23,374</u>	<u>20,165</u>
	Total fixed assets	<u>138,238</u>	<u>146,181</u>	<u>132,217</u>	<u>132,367</u>
	Non-fixed assets				
	Inventories				
	Raw materials and consumables	21,050	13,851	16,292	11,199
	Contract work in progress	19,061	19,379	16,532	13,324
	Finished goods and goods for resale	18,943	21,673	16,033	18,012
		<u>59,054</u>	<u>54,903</u>	<u>48,857</u>	<u>42,535</u>
	Receivables				
	Trade receivables	48,242	52,192	43,809	48,993
	Corporation tax receivable	0	774	0	774
	Receivables from group enterprises	7,688	2,317	15,047	17,136
	Other receivables	2,776	2,439	735	196
	Prepayments	1,016	938	1,016	905
		<u>59,722</u>	<u>58,660</u>	<u>60,607</u>	<u>68,004</u>
	Cash	<u>3,272</u>	<u>5,543</u>	<u>1,960</u>	<u>2,130</u>
	Total non-fixed assets	<u>122,048</u>	<u>119,106</u>	<u>111,424</u>	<u>112,669</u>
	TOTAL ASSETS	<u>260,286</u>	<u>265,287</u>	<u>243,641</u>	<u>245,036</u>

**Consolidated financial statements and parent company financial statements for
the period 1 January - 31 December**

Statement of changes in equity

		Consolidated		
Note	DKK'000	Share capital	Retained earnings	Total
	Equity at 31 December 2015	1,000	71,878	72,878
	Paid dividends	0	-6,000	-6,000
15	Transferred; see profit appropriation	0	18,987	18,987
	Foreign currency translation adjustments, foreign subsidiaries	0	-888	-888
	Equity at 31 December 2016	1,000	83,977	84,977

		Parent company			
Note	DKK'000	Share capital	Reserve for net revaluation under the equity method	Retained earnings	Total
	Equity at 31 December 2015	1,000	3,657	68,221	72,878
	Paid dividends	0	0	-6,000	-6,000
15	Transferred; see profit appropriation	0	3,997	14,990	18,987
	Foreign currency translation adjustments, foreign subsidiaries	0	-888	0	-888
	Equity at 31 December 2016	1,000	6,766	77,211	84,977

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Cash flow statement

Note	DKK'000	Consolidated	
		2016	2015
	The Group's share of profit for the year	18,987	6,043
	Non-controlling interests' share of the results of subsidiaries	1,418	1,653
		20,405	7,696
16	Adjustments	32,589	27,430
	Cash generated from operations (operating activities) before changes in working capital	52,994	35,126
17	Changes in working capital	8,604	-24,483
	Cash generated from operations (operating activities)	61,598	10,643
	Interest received	2,264	3,089
	Interest paid	-5,849	-5,641
	Cash generated from operations (ordinary activities)	58,013	8,091
	Corporation tax paid	693	-343
	Cash flows from operating activities	58,706	7,748
	Acquisition of property, plant and equipment	-17,766	-27,111
	Disposal of property, plant and equipment	1,595	3,403
	Acquisition of securities	-100	0
	Cash flows from investing activities	-16,271	-23,708
	External financing:		
	Repayment of long-term debt	-20,996	-18,129
	Raising of loans	19,879	12,593
	Changes in balances with shareholders	-5,371	-6,280
	Paid dividends	-6,000	-1,000
	Cash flows from financing activities	-12,488	-12,816
	Net cash flows from operating, investing and financing activities	29,947	-28,776
	Cash and cash equivalents at 1 January	-42,918	-14,142
	Cash and cash equivalents at 31 December	-12,971	-42,918

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

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies

The annual report of Niebuhr Gears A/S for 2016 has been prepared in accordance with the provisions applying to reporting class C medium-sized enterprises under the Danish Financial Statements Act.

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

1. Yearly reassessment of residual values of property, plant and equipment
2. Method applied to intra-group business combinations.

Re 1: In future, residual values of property, plant and equipment are subject to annual reassessment. The Company has no significant residual values relating to property, plant and equipment other than those relating to the Company's land. Consequently, the change is made in accordance with section 4 of the executive order on transitional provisions¹ with future effect only as a change in accounting estimates with no impact on equity.

Re 2: In connection with business combinations involving entities controlled by the Parent Company, the book value method is applied going forward, meaning that the combination is considered complete at the time of acquisition without any restatement of comparative figures. Previously, the combination was considered completed at the beginning of the financial year with restatement of comparative figures.

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

The accounting policies used in the preparation of the consolidated financial statements and the parent company financial statements are consistent with those of last year.

Consolidated financial statements

The consolidated financial statements comprise the parent company, Niebuhr Gears A/S, and subsidiaries in which Niebuhr Gears A/S directly or indirectly holds more than 50% of the voting rights or which it, in some other way, controls. Enterprises in which the Group holds between 20% and 50% of the voting rights and over which it exercises significant influence, but which it does not control, are considered associates, see the group chart.

On consolidation, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains and losses on intra-group transactions are eliminated.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of net assets or liabilities at the acquisition date.

Any excess of the cost over the fair value of the identifiable assets and liabilities acquired (goodwill), including restructuring provisions, is recognised as intangible assets and amortised on a systematic basis in the income statement based on an individual assessment of the useful life of the asset, not exceeding 20 years.

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

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

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Receivables and 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 at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Foreign subsidiaries are considered separate entities. The income statements are translated at the average exchange rates for the month, and the balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising on translation of the opening equity of foreign subsidiaries at the exchange rates at the balance sheet date and on translation of the income statements from average exchange rates to the exchange rates at the balance sheet date are recognised directly in equity.

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

Derivative financial instruments

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

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

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

Income statement

Revenue

Revenue from the sale of finished goods is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place before year end and that the income can be reliably measured and is expected to be received. Revenue is measured ex. VAT and taxes charged on behalf of third parties. All discounts granted are recognised in revenue.

Production costs

Production costs comprise costs, including depreciation and amortisation and salaries, incurred in generating the revenue for the year. Trading enterprises recognise their cost of sales, and production enterprises recognise their production costs incurred in generating the revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases, and depreciation of production plant.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Distribution costs

Costs incurred in distributing goods sold during the year and in conducting sales campaigns, etc., during the year are recognised as distribution costs. Also, costs relating to sales staff, advertising, exhibitions and depreciation are recognised as distribution costs.

Administrative expenses

Administrative expenses comprise expenses incurred during the year for group management and administration, including expenses for administrative staff, office premises and office expenses, and depreciation.

Profits/losses from investments in subsidiaries

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement of the parent company after full elimination of intra-group profits/losses.

Financial income and expenses

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

Tax on profit/loss for the year

The parent company, Rasmus Holding ApS, is covered by the Danish rules on compulsory joint taxation of the Niebuhr Group's Danish subsidiaries.

The parent company is the administrative company for the joint taxation and consequently settles all corporation tax payments with the tax authorities.

The 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 contribution from companies that have used these losses to reduce their own taxable profits.

Tax for the year comprises current tax, 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

Intangible assets

Software rights are measured at cost less accumulated amortisation. Software rights are amortised over three years.

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

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

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	20-40 years
Plant and machinery	5-10 years
Fixtures and fittings, tools and equipment	4-8 years
Leasehold improvements	10 years

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

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

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

Gains and losses on the disposal of 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 or losses are recognised in the income statement as other operating income or other operating costs, respectively.

Leases

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

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

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

Investments in subsidiaries

Investments in subsidiaries are measured under the equity method.

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

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Investments in subsidiaries with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down if the amount owed is irrecoverable. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the amount owed, the remaining amount is recognised under provisions.

Net revaluation of investments in subsidiaries is recognised in the reserve for net revaluation in equity under the equity method to the extent that the carrying amount exceeds cost. Dividends from subsidiaries which are expected to be adopted before the approval of the annual report of Niebuhr Gears A/S are not recognised in the reserve for net revaluation.

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

Impairment of fixed assets

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

Impairment tests are conducted of individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

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

Inventories

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

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

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not included in cost.

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

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses based on an individual assessment of receivables.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Equity

Reserve for net revaluation according to the equity method

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

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

The reserve cannot be recognised at a negative amount.

Dividends

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

Corporation tax and deferred tax

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Joint taxation contribution payable and receivable is recognised in the balance sheet as "Corporation tax receivable" or "Corporation tax payable".

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 business combinations, arise at the date of acquisition without affecting either profit/loss for the year or taxable income. Where different tax rules can be applied to determine the tax base, deferred tax is measured based on Management's planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

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

Deferred tax is measured 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.

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

Other liabilities are measured at net realisable value.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

1 Accounting policies (continued)

Cash flow statement

The cash flow statement shows the Group's cash flows from operating, investing and financing activities for the year, the year's changes in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

Cash flows from operating activities

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

Cash flows from investing activities

Cash flows from investing activities comprise payments in connection with acquisitions and disposals of enterprises and activities and of 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 Group's 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 marketable securities with a term of three months or less which are subject to an insignificant risk of changes in value.

DKK'000	Consolidated		Parent company	
	2016	2015	2016	2015
2 Financial income				
Interest income from group enterprises	64	73	502	668
Foreign exchange gains	2,189	3,352	1,846	1,285
Other interest income	11	9	0	0
	<u>2,264</u>	<u>3,434</u>	<u>2,348</u>	<u>1,953</u>
3 Financial expenses				
Interest expenses to group enterprises	0	0	0	0
Foreign exchange losses	864	345	864	345
Other interest expense	4,986	5,641	4,139	4,458
	<u>5,850</u>	<u>5,986</u>	<u>5,003</u>	<u>4,803</u>

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

4 Tax on the profit for the year

DKK'000	Consolidated		Parent company	
	2016	2015	2016	2015
Estimated tax on the taxable income for the year	4,712	225	3,627	225
Adjustment of deferred tax	1,360	1,349	593	27
Tax adjustment, prior years	-28	0	-28	0
Reduction of tax rate	0	-85	0	-85
	<u>6,044</u>	<u>1,489</u>	<u>4,192</u>	<u>167</u>

5 Intangible assets

DKK'000	Consoli- dated
	Software rights
Cost at 1 January 2016	1,731
Additions	854
At 31 December 2016	<u>2,585</u>
Impairment losses and amortisation at 1 January 2016	1,020
Amortisation for the year	321
Impairment losses and amortisation at 31 December 2016	<u>1,341</u>
Carrying amount at 31 December 2016	<u>1,244</u>
Amortised over	<u>3 years</u>
	Parent company
	Software rights
DKK'000	
Cost at 1 January 2016	1,731
Additions	854
Cost at 31 December 2016	<u>2,585</u>
Impairment losses and amortisation at 1 January 2016	1,020
Amortisation for the year	321
Impairment losses and amortisation at 31 December 2016	<u>1,341</u>
Carrying amount at 31 December 2016	<u>1,244</u>
Amortised over	<u>3 years</u>

Consolidated financial statements and parent company financial statements for
the period 1 January - 31 December

Notes to the financial statements

6 Property, plant and equipment

DKK'000	Consolidated					Total
	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment under construction	
Cost at 1 January 2016	57,761	263,296	4,178	15,288	8,044	348,567
Foreign currency translation adjustments, foreign entities	0	-1,875	0	-73	-79	-2,027
Additions	526	7,027	3,176	710	5,475	16,914
Transferred	-110	8,260	0	110	-8,260	0
Disposals	0	-6,466	-1,172	0	0	-7,638
Cost at 31 December 2016	58,177	270,242	6,182	16,035	5,180	355,816
Impairment losses and depreciation at 1 January 2016	11,587	178,599	2,424	10,687	0	203,297
Foreign currency translation adjustments, foreign entities	0	-829	0	-16	0	-845
Depreciation	1,326	20,123	869	1,345	0	23,663
Disposals	-22	-6,466	-527	22	0	-6,993
Impairment losses and depreciation at 31 December 2016	12,891	191,427	2,766	12,038	0	219,122
Carrying amount at 31 December 2016	45,286	78,815	3,416	3,997	5,180	136,694
Property, plant and equipment include finance leases with a carrying amount totalling	45,280	42,521	2,970	0	1,777	92,548
Depreciated over	20-40 years	5-10 years	4-8 years	10 years	-	

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

6 Property, plant and equipment (continued)

DKK'000	Parent company					Total
	Land and buildings	Plant and machinery	Fixtures and fittings, tools and equipment	Leasehold improvements	Property, plant and equipment under construction	
Cost at 1 January 2016	57,762	209,687	4,177	13,223	5,771	290,620
Additions	526	6,032	3,176	41	5,180	14,955
Transferred	-110	5,771	0	110	-5,771	0
Disposals	0	-6,466	-1,172	0	0	-7,638
Cost at 31 December 2016	58,178	215,024	6,181	13,374	5,180	297,937
Impairment losses and depreciation at 1 January 2015	11,588	154,890	2,423	10,228	0	179,129
Depreciation	1,326	15,137	869	869	0	18,201
Transferred	-22	0	0	22	0	0
Disposals	0	-6,466	-526	0	0	-6,992
Impairment losses and depreciation at 31 December 2016	12,892	163,561	2,766	11,119	0	190,338
Carrying amount at 31 December 2016	45,286	51,463	3,415	2,255	5,180	107,599
Property, plant and equipment include finance leases with a carrying amount totalling	45,280	37,652	2,970	0	1,777	87,679
Depreciated over	20-40 years	5-10 years	4-8 years	10 years	-	

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

7 Investments in subsidiaries

DKK'000	Parent company	
	2016	2015
Cost at 31 December	16,308	16,308
Value adjustments at 1 January	3,657	-2,290
Foreign currency translation adjustments	-888	808
Profit for the year	4,253	4,957
Intra-group profits	-317	238
Adjustment of deferred tax, intra-group profit	59	-56
Value adjustments at 31 December	6,764	3,657
Carrying amount at 31 December	23,072	19,965

Name and registered office	Voting rights and ownership	Profit/loss DKK'000	Equity DKK'000
Niebuhr Limited, Hong Kong	75%	5,673	31,845

Niebuhr Limited, Hong Kong, holds all the shares in the Chinese company, Niebuhr Gears (Tianjin) Co., Ltd.

8 Share capital

The share capital comprises 1,000,000 shares of DKK 1 each. No shares carry special voting rights. The share capital has remained unchanged for the past five years.

9 Deferred tax

DKK'000	Consolidated		Parent company	
	2016	2015	2016	2015
Deferred tax at 1 January	165	-1,137	1,248	1,143
Foreign currency translation adjustments	32	-144	0	0
Non-controlling interests share	-20	19	0	0
Adjustment of deferred tax	1,360	1,349	593	27
Adjustment of deferred tax, taken directly to equity	0	163	0	163
Reduction of tax rate	0	-85	0	-85
Adjustment of deferred tax, prior years	357	0	357	0
Deferred tax 31 December	1,894	165	2,198	1,248

Provisions regarding deferred tax comprise deferred tax relating to intangible assets, property, plant and equipment, indirect production overheads regarding inventories, debtors and lease obligations.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

10 Non-current liabilities (continued)

		Consolidated				
DKK'000	Total debt at 1/1 2016	Total debt at 31/12 2016	Repayment, first year	Non-current portion	Outstanding debt after 5 years	
Other non-current liabilities	9,409	7,198	2,152	5,046	0	
Lease obligation	91,862	92,956	17,273	75,683	36,559	
	<u>101,271</u>	<u>100,154</u>	<u>19,425</u>	<u>80,729</u>	<u>36,559</u>	

		Parent company				
DKK'000	Total debt at 1/1 2016	Total debt at 31/12 2016	Repayment, first year	Non-current portion	Outstanding debt after 5 years	
Lease obligation	89,056	89,727	15,755	73,972	36,559	
	<u>89,056</u>	<u>89,727</u>	<u>15,755</u>	<u>73,972</u>	<u>36,559</u>	

11 Contractual obligations and contingencies, etc.

Contingent liabilities

The Company has provided a guarantee for the subsidiary's bank for other non-current liabilities with a residual outstanding amount of DKK 3,859 thousand at 31 December 2016. Moreover, the Company has provided a guarantee for the subsidiary's finance lease contracts with a lease liability of DKK 3,229 thousand at 31 December 2016.

Operating leases

The Company has entered into operating leases representing the following amounts:

Remaining terms in 3-29 months with an average monthly payment of DKK 13 thousand, totalling DKK 382 thousand.

In addition, the Company and the Group have entered into finance leases, which have been recognised in the balance sheet; see note 6.

The Group has entered into leases with a remaining term of 34 months with an average annual lease payment of DKK 115 thousand, totalling DKK 3,909 thousand.

Buy-back obligation

As of 1 July 2018, the Group is, if requested, under an obligation to acquire the non-controlling shareholding in the subsidiary, Niebuhr Limited, Hong Kong, at a price of at least DKK 8.9 million.

Joint taxation liability

The Company is jointly taxed with its parent, Rasmus Holding ApS, which acts as management company, and other group entities. The Company has joint and several unlimited liability together with other jointly taxed group entities for Danish corporation taxes and withholding taxes on dividends, interest and royalties. At 31 December 2016, no corporation taxes or withholding taxes were incumbent on the joint taxation unit. Any subsequent corrections of the taxable income subject to joint taxation or withholding taxes may entail that the Company's liability will increase.

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

DKK'000	Consolidated		Parent company	
	2016	2015	2016	2015
12 Mortgages and collateral				
The following assets have been provided as collateral for other non-current liabilities:				
Machinery with a carrying amount of	12,959	8,569	0	0
The following assets have been provided as collateral vis-à-vis the Group's banks:				
Lease assets are pledged as collateral for lease obligations	92,548	90,547	87,679	87,367
An owner's mortgage, DKK 7 million, secured on operating equipment of the business established in the leased premises, located on La Cours Vej 8, DK-7430 Ikast, and separate collateral provided in specific production machines	19,921	24,124	19,921	24,124
13 Staff costs				
Wages and salaries	51,065	46,644	45,618	41,740
Pensions	3,490	3,338	3,490	3,338
Other social security costs	2,784	2,720	1,024	1,288
	57,339	52,702	50,132	46,366
Staff costs include:				
Remuneration of the Executive Board and the Board of Directors	2,297	1,366	2,297	1,366
Average number of full-time employees	159	161	108	115

Consolidated financial statements and parent company financial statements for the period 1 January - 31 December

Notes to the financial statements

14 Related party disclosures

Niebuhr Gears A/S' related parties comprise the following:

Parties exercising control

Rasmus Holding ApS, Peter Bonnens Vej 19, 7430 Ikast holds the majority of the share capital in the Company.

Ownership

The following shareholders are registered in the Company's register of shareholders as holding minimum 5% of the voting rights or minimum 5% of the share capital:

Rasmus Holding ApS
Peter Bonnens Vej 19
DK-7430 Ikast

The Niebuhr Gears A/S Group is included in the consolidated financial statements of Rasmus Holding ApS.

Related party transactions

DKK'000	2016	2015
Group		
Receivables from group enterprises	7,688	2,317
Interest income from group enterprises	64	73
Parent		
Sale of goods to group enterprises	2,324	760
Other income	593	0
Interest income from group enterprises	502	668
Receivables from group enterprises	15,047	17,136
Payables to group enterprises	11,068	7,791

Besides distribution of dividend, no other transactions were carried through with shareholders in the year.

Remuneration/fees to members of the Executive Board and the Board of Directors of the Parent Company are disclosed in note 13.

15 Appropriation of profit/loss

DKK'000	Parent	
	2016	2015
Extraordinary dividends distributed in the year	6,000	0
Reserve for net revaluation under the equity method	3,997	3,657
Retained earnings	8,990	2,386
	<u>18,987</u>	<u>6,043</u>

**Consolidated financial statements and parent company financial statements for
the period 1 January - 31 December**

DKK'000	Consolidated	
	2016	2015
16 Cash flow statement adjustments		
Financial income	-2,264	-3,089
Financial expenses	5,849	5,641
Amortisation of intangible assets and depreciation on property, plant and equipment	23,984	23,981
Profit/loss on the sale of fixed assets	-950	-19
Tax on profit for the year	6,044	1,490
Change in interest swap	0	693
Value adjustments of subsidiaries, etc.	-74	-1,267
	<u>32,589</u>	<u>27,430</u>
17 Changes in working capital		
Change in inventories	-4,151	-11,524
Change in receivables	3,535	-20,005
Change in trade and other payables	9,220	7,046
	<u>8,604</u>	<u>-24,483</u>