Tvilum ApS

Egon Kristiansens Allé 2, DK-8882 Fårvang

Annual Report for 1 January - 31 December 2016

CVR No 19 56 27 86

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 27/03 2017

Andrew Robert Long
Chairman

pwc

Contents

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Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Tvilum ApS 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 and the Consolidated Financial Statements give a true and fair view of the financial position at 31 December 2016 of the Company and the Group and of the results of the Company and Group operations and of consolidated cash flows for 2016.

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

Fårvang, 27 March 2017

Executive Board

Andrew Robert Long

Board of Directors

Cyrus Keavan Nikou	Aman Bajaj	Robert Loring, JR
Vibeke Bredal Omme Staff Representative	Povl Larsen Staff Representative	

Independent Auditor's Report

To the Shareholder of Tvilum ApS

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

We have audited the Financial Statements and the Consolidated Financial Statements of Tvilum ApS for the financial year 1 January - 31 December 2016, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for both the Parent Company and the Group, as well as consolidated statement of cash flows ("financial statements").

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

Statement on Management's Review
Management is responsible for Management's Review.

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

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

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

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

Independent Auditor's Report

Management's Responsibilities for the Financial Statements
Management is responsible for the preparation of Financial Statements and the Consolidated 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 and the Group'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 the Group or to cease operations, or has no realistic alternative but to do so.

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and the Group'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 and the Group'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

Independent Auditor's Report

audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company and the Group 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.

- 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.

Odense, 27 March 2017
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Michael Nielsson statsautoriseret revisor	Mette Holy Jørgensen statsautoriseret revisor

Company Information

The Company	Tvilum ApS Egon Kristiansens Allé 2 DK-8882 Fårvang CVR No: 19 56 27 86 Financial period: 1 January - 31 December Municipality of reg. office: Fårvang
Board of Directors	Cyrus Keavan Nikou Aman Bajaj Robert Loring, JR Vibeke Bredal Omme Povl Larsen
Executive Board	Andrew Robert Long
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Rytterkasernen 21 Postboks 370 DK-5100 Odense C

Financial Highlights

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

	Group				
	2016	2015	2014	2013	2012
	Mio. DKK	Mio. DKK	Mio. DKK	Mio. DKK	Mio. DKK
Key figures					
Profit/loss					
Revenue	1.269	1.407	1.549	1.501	1.450
Operating profit/loss (EBITDA)	22	0	-35	-28	-128
Profit/loss before financial income and expenses	4	-31	-70	-67	-177
Net financials	-18	-27	-15	-3	2
Net profit/loss for the year	-11	-45	-64	-52	-186
Balance sheet					
Balance sheet total	630	704	758	784	844
Equity	229	240	285	349	462
Cash flows					
Cash flows from:					
- operating activities	23	11	-45	53	-172
- investing activities	-37	-14	-8	-6	4
including investment in property, plant and equipment	-46	-15	-10	-10	-12
- financing activities	-19	52	28	-43	192
Change in cash and cash equivalents for the year	-33	49	-25	4	24
Number of employees	673	849	884	989	997
Ratios					
Gross margin	13,1%	11,2%	7,9%	9,2%	4,8%
Profit margin	0,3%	-2,2%	-4,5%	-4,5%	-12,2%
Return on assets	0,6%	-4,4%	-9,2%	-8,5%	-21,0%
Solvency ratio	36,3%	34,1%	37,6%	44,5%	54,7%
Return on equity	-4,7%	-17,1%	-20,2%	-12,8%	-33,5%
Operating Profit margin	1,7%	0,0%	-2,3%	-1,9%	-8,8%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies. In connection with changes to accounting policies, the comparative figures back to 2012 have not been restated. See the description under accounting policies.

Management's Review

Main activity

The main activity of the company is development, production and sales of furniture based on chipboard or MDF, which is covered with foil, melamine or veneer. All furniture is sold as flat-packed ready to assemble furniture. The furniture is sold in more than 80 countries with Scandinavia, other countries in Europe, Australia, Asia, the Middle East, North and South America as the most important markets.

Development during the year

In 2016 Tvilum Group has seen the positive effects of both turnaround- and growth initiatives implemented in 2015 and 2016 resulting in a significant improvement to EBITDA and EBIT.

EBITDA amounts to DKK 22 mill. in 2016 which is an improvement of DKK 22 mill. compared to 2015 and an improvement of DKK 57 mill. compared to 2014.

EBIT amounts to DKK 4 mill. in 2016 which is an improvement of DKK 35 mill. compared to 2015 and an improvement of DKK 75 mill. compared to 2014.

Net profit/loss amounts to DKK -11 mill. in 2016 which is an improvement of DKK 34 million compared to 2015 and an improvement of DKK 53 mill. compared to 2014.

The RTA furniture market has remained highly competitive in 2016 resulting in a continued pressure on prices. However, the company sees an increased demand for its product ranges in Europe and several emerging markets globally, thus the company has succeeded in improving its contribution margin through new products sold to both existing and new customers.

The company has seen slightly decreasing prices on its main raw materials in 2016 which among other things is due to increasing availability of main raw materials in the market, hence an incipient decline in purchase prices.

Rationalization savings: The company has achieved significant savings in production, selling & Administration expenses through cost saving initiatives and process optimizations. Savings initiatives implemented during 2016 will also bring further savings in 2017 due to the carry over impact. The rationalization savings have among other things been achieved by a consolidation of the company's production facilities in Denmark where one production facility has been closed down in 2016. The consolidation of factories does not influence production capacity.

Profit improvement initiatives: In January 2016 the company announced the establishment of a new production facility in Poland. The production facility officially opened in September 2016 and the international expansion of manufacturing capabilities has contributed to increasing the company's competitive position in the market.

Management's Review

It has brought a more regionalized manufacturing approach and the company's competitive position has been improved by being both closer to raw materials and closer to market. This has already brought new business to the company and supports the offensive sales growth strategy by bringing the company closer to the emerging markets globally.

In 2016 the company has opened a new sales office in Japan and expanded the sales offices in both Latin America and North America to support the growth on both existing and new markets.

Income Statement

Revenue on Group level has decreased from DKK 1,407 mill. in 2015 to DKK 1,269 mill. in 2016, corresponding to a decrease of 9.8%. Revenue for the parent company has decreased from DKK 1,407 mill. in 2015 to DKK 1,250 mill. in 2016.

The development can be explained by a deliberate discontinuation of low margin business with two large clients. Setting aside these two clients, then the revenue has grown by more than 5% from 2015 to 2016 and at the same time this has led to an increase in the company's gross profit margin from 11.4% in 2015 to 13.1% in 2016.

Expenses for raw materials have on group level decreased from DKK 1,091 mill. in 2015 to DKK 977 mill. in 2016, corresponding to a decrease of 10.5% driven by the decrease in sales. The reduction in expenses for raw materials and consumables is higher than the decrease in sale, hence the decrease is on business with low gross margins.

Other external expenses have decreased from DKK 158 mill. in 2015 to DKK 132 mill. in 2016, corresponding to a saving of DKK 26 mill. or 16.4%.

Gross profit has increased from DKK 158 mill. in 2015 to DKK 167 mill. in 2016. The gross profit margin has increased from 11.4% in 2015 to 13.1% in 2016, hence an improvement in profitability.

EBITDA on group level has improved from DKK 0 mill. in 2015 to DKK +22 mill. in 2016 corresponding to an improvement of DKK 22 mill. The result is impacted by DKK 6 mill. from gain on sale of a building.

EBIT has improved from DKK -31 mill. in 2015 to DKK +4 in 2016 corresponding to an improvement of DKK 35 mill.

Net profit/loss has improved from DKK -45 mill. in 2015 to DKK -11 mill. in 2016 corresponding to an improvement of DKK 34 mill.

The management considers the EBITDA and EBIT levels of the company in 2016 satisfactory, and emphasizes the significant improvement compared to previous years. Further, the management notes that profit improvement initiatives implemented in 2016; such as establishing production facility in

Management's Review

Poland and the continued global expansion of sales offices will bring further improvements to the 2017 results.

The management acknowledges that the 2016 EBITDA is below budget. However, the primary reason why the 2016 EBITDA is below budget is BREXIT as this has had a significant negative impact on the part of the company's revenue that was recognized in GBP (British pound sterling). The management emphasizes that despite EBITDA being lower than budget, the 2016 EBIT is exceeding the 2016 budget expectations.

The Board of Directors recommends that the company does not pay out dividend in 2016.

Balance Sheet

Balance Sheet of the Group has been reduced from DKK 704 mill. in 2015 to DKK 630 mill. in 2016. This is a total decrease of DKK 73 mill. driven by a reduction in Inventory and Trade receivables somewhat offset by higher Plant and machinery due to the new production facility in Poland.

The Equity of the Company remains solid and amounts to DKK 229 mill. corresponding to 36.4% of the total balance.

Cash Flow Statement

In 2016 the company has generated a positive cash flow from operating activities of DKK 23 mill. compared to DKK 11 mill. in 2015. The positive development from 2015 to 2016 is driven by the improved EBITDA and the reduction in financial expenses.

Cash flows from investing activities amount to DKK -37 mill. compared to DKK -14 mill. in 2015. After investments the company generated cash flows of DKK -14 mill. in 2016 compared to DKK -4 mill. in 2015.

The development in cash flows from investment activities is driven by the establishing the new production facility in Poland

Cash flow from finance activities of DKK -19 mill. is driven by repayment to credit institutions somewhat offset by a new bank loan obtained in Poland.

In 2016 the change in cash and cash equivalents totals DKK -33 mill.

Targets and expectations for 2017

The company expects the positive development in Operating profit to continue in in 2017. Expectations for 2017 are stated below:

Management's Review

Budget/DKK mill.	2017
Revenue	1,277
Operating profit	36

The positive development in operating profit (EBITDA) in 2017 will be driven by a continued profitable growth in revenue on emerging markets globally, and a lowering of production expenses through the production facilities in Poland. Both elements will result in an improved gross profit margin.

Operating profit will also improve through savings in selling and administration expenses from savings initiatives already implemented during 2016.

These activities have demonstrated their effects as the company has achieved positive earnings in the first months of 2017 and is exceeding targets on both gross profit margin and expenses. The positive developments are expected to continue throughout 2017 and in years to come.

The production facility in Poland will bring further improvement to Operating profit in especially 2017 and 2018 through lower production costs and increased competitiveness.

Special risks - operating risks and financial risks

Supply risk

The company uses several suppliers on significant raw materials to ensure supplies independent of one single supplier.

Currency risk

Majority of trade is settled in EUR and DKK. EUR is used for payment of Danish and foreign suppliers, where it has been agreed to pay in this currency. Besides from this the company uses GBP and USD.

Part of the company's revenue is recognized in GBP, from where it experiences a currency risk due to the uncertainty created by BREXIT. The company has implemented price increases to compensate the negative development in GBP seen in 2016. However, the company still considers some risk to be related to revenue recognized in GBP.

Furthermore, the company owns shares in its Russian subsidiary, from where it experiences a currency risk. However, the value of this subsidiary is not significant, why the risk is not material.

Interest rate risks

The company is exposed to interest rate risk on borrowing from external lenders.

Management's Review

Credit risks

No single customer represents a significant risk to the company. Credit insurance is assessed on each customer by credit insurance companies. The majority of the companys significant customers are on this assessment credit insured at 31 December 2016.

Research and development

The company is developing and designing furniture based on chipboard or MDF, which is covered with foil, melamine or veneer. All developed furniture is sold as flat-packed ready to assemble furniture.

The cost directly allocated to the development process is capitalized as intangible assets.

Statement of corporate social responsibility

Tvilum is a member of the United Nations Global Compact and endorses principles and guidelines in accordance with the compact.

Tvilum's business strategy and business activities also contain a number of elements related to ethics and personnel policy working environment and accidents as well as care for the environment and people.

As the statutory statement on social responsibility the company refers to Tvilum's annual Communication on Progress (COP) from May 2016. The report is renewed annually and is available at https://www.unglobalcompact.org/system/attachments/cop_2016/282021/original/2016_Tvilum_COP_r1.pdf?1462367331.

Statutory statement regarding the underrepresented gender in accordance with section 99 b of the Danish Financial Statements Act

Gender representation in the supreme management body

The company is working on complying with provisions of the law for the underrepresented gender in the supreme management body and on other management levels.

The supreme management body consists of the Board of Directors. The Board of Directors which is elected on the General Meeting consists of three men.

The target of the company is to fill seats of the board with people that possess the best qualifications for the performance of the board. In addition to this the target is to have a gender distribution of at least 33/67 % (women/men) equal to 1 out of 3 in the Board of Directors elected on the General Meeting by 2019.

Equality in management levels at Tvilum ApS

The management of the company consists of both men and women. The policy of the company says that women are encouraged equal as men to apply for vacant positions in the company. Women are also guaranteed the same rights and conditions during their employment as men. In connection to this, personnel is ensured good conditions regarding maternity leave, flexible working hours and the possibility to work from home.

The gender composition on other management levels is a positive mix of women and men, and conditions mentioned above have not led to a significant change to this.

Subsequent events

The Company has evaluated events up to the filing date of the annual report and determined that no subsequent event activity required disclosure.

Income Statement 1 January - 31 December

	Note	Group		Parent	
		2016	2015	2016	2015
		TDKK	TDKK	TDKK	TDKK
Revenue	2	**1.269.386**	**1.406.643**	**1.250.259**	**1.407.341**
Other operating income		6.191	0	6.191	0
Expenses for raw materials and consumables		-977.050	-1.090.651	-955.600	-1.085.745
Other external expenses		-132.119	-157.869	-140.798	-166.018
Gross profit/loss		**166.408**	**158.123**	**160.052**	**155.578**
Staff expenses	3	-144.193	-157.837	-138.286	-152.213
Operating profit/loss (EBITDA)		**22.215**	**286**	**21.766**	**3.365**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	4	-18.199	-31.436	-17.995	-31.428
Other operating expenses		0	-328	0	-328
Profit/loss before financial income and expenses		**4.016**	**-31.478**	**3.771**	**-28.391**
Income from investments in subsidiaries		0	0	-244	-2.428
Financial income		2.448	2.764	2.414	2.375
Financial expenses	5	-20.100	-29.865	-19.661	-29.499
Profit/loss before tax		**-13.636**	**-58.579**	**-13.720**	**-57.943**
Tax on profit/loss for the year	6	2.701	13.774	2.785	13.138
Net profit/loss for the year		**-10.935**	**-44.805**	**-10.935**	**-44.805**

Distribution of profit

Proposed distribution of profit

Reserve for net revaluation under the equity method	0	-466
Retained earnings	-10.935	-44.339
	-10.935	**-44.805**

Balance Sheet 31 December

Assets

		Group		Parent	
	Note	2016	2015	2016	2015
		TDKK	TDKK	TDKK	TDKK
Completed development projects		3.445	0	3.445	0
Development projects in progress		1.390	0	1.390	0
Intangible assets	7	**4.835**	**0**	**4.835**	**0**
Land and buildings		112.908	123.935	112.908	123.935
Plant and machinery		64.696	49.153	48.386	49.153
Other fixtures and fittings, tools and equipment		5.004	4.394	4.961	4.343
Property, plant and equipment in progress		22.223	7.252	13.847	7.252
Property, plant and equipment	8	**204.831**	**184.734**	**180.102**	**184.683**
Investments in subsidiaries	9	0	0	28.610	13.269
Fixed asset investments		**0**	**0**	**28.610**	**13.269**
Fixed assets		**209.666**	**184.734**	**213.547**	**197.952**
Inventories	10	**176.290**	**207.231**	**166.485**	**206.094**
Trade receivables		159.217	197.352	158.604	197.317
Receivables from group enterprises		1.657	1.488	14.783	2.310
Other receivables		6.464	2.771	1.736	2.198
Deferred tax asset	12	50.811	49.548	49.724	48.915
Prepayments	11	3.753	5.519	3.549	5.462
Receivables		**221.902**	**256.678**	**228.396**	**256.202**
Cash at bank and in hand		**22.193**	**55.504**	**17.805**	**55.125**
Currents assets		**420.385**	**519.413**	**412.686**	**517.421**
Assets		**630.051**	**704.147**	**626.233**	**715.373**

Balance Sheet 31 December

Liabilities and equity

		Group		Parent	
	Note	2016	2015	2016	2015
		TDKK	TDKK	TDKK	TDKK
Share capital		97.926	97.926	97.926	97.926
Reserve for development costs		4.835	0	4.835	0
Retained earnings		126.239	141.678	126.239	141.678
Equity		**229.000**	**239.604**	**229.000**	**239.604**
Other provisions	13	3.316	3.793	3.316	3.793
Provisions		**3.316**	**3.793**	**3.316**	**3.793**
Subordinate loan capital		5.400	5.400	5.400	5.400
Credit institutions		56.080	0	56.080	0
Long-term debt	14	**61.480**	**5.400**	**61.480**	**5.400**
Credit institutions	14	148.971	223.930	140.620	223.930
Trade payables		123.523	153.919	117.298	153.531
Payables to group enterprises		0	0	12.583	11.743
Other payables		63.761	77.501	61.936	77.372
Short-term debt		**336.255**	**455.350**	**332.437**	**466.576**
Debt		**397.735**	**460.750**	**393.917**	**471.976**
Liabilities and equity		**630.051**	**704.147**	**626.233**	**715.373**

Going concern	1
Contingent assets, liabilities and other financial obligations	17
Related parties	18

Statement of Changes in Equity

Group

	Share capital	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	97.926	0	141.678	239.604
Other equity movements	0	0	331	331
Development costs for the year	0	5.308	-5.308	0
Depreciation, amortisation and impairment for the year	0	-473	473	0
Net profit/loss for the year	0	0	-10.935	-10.935
Equity at 31 December	**97.926**	**4.835**	**126.239**	**229.000**

Parent

	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January	97.926	0	141.678	239.604
Other equity movements	0	0	331	331
Development costs for the year	0	5.308	-5.308	0
Depreciation, amortisation and impairment for the year	0	-473	473	0
Net profit/loss for the year	0	0	-10.935	-10.935
Equity at 31 December	**97.926**	**4.835**	**126.239**	**229.000**

The share capital consists of 9,792,553 shares of a nominal value of DKK 97,926 thousands. No shares carry any special rights.

There have been no changes in the share capital during the last 5 years.

Cash Flow Statement 1 January - 31 December

	Note	Group 2016	Group 2015
		TDKK	TDKK
Net profit/loss for the year		-10.935	-44.805
Adjustments	15	27.462	44.718
Change in working capital	16	22.359	37.916
Cash flows from operating activities before financial income and expenses		**38.886**	**37.829**
Financial income		2.448	2.764
Financial expenses		-20.093	-29.866
Cash flows from ordinary activities		**21.241**	**10.727**
Corporation tax paid		1.438	-112
Cash flows from operating activities		**22.679**	**10.615**
Purchase of intangible assets		-5.307	0
Purchase of property, plant and equipment		-46.451	-14.714
Sale of property, plant and equipment		14.818	644
Cash flows from investing activities		**-36.940**	**-14.070**
Repayment of loans from credit institutions		-27.958	0
Repayment of payables to group enterprises		-169	0
Raising of loans from credit institutions		9.077	51.738
Raising of loans from group enterprises		0	566
Cash flows from financing activities		**-19.050**	**52.304**
Change in cash and cash equivalents		**-33.311**	**48.849**
Cash and cash equivalents at 1 January		55.504	6.655
Cash and cash equivalents at 31 December		**22.193**	**55.504**
Cash and cash equivalents are specified as follows:			
Cash at bank and in hand		22.193	55.504
Cash and cash equivalents at 31 December		**22.193**	**55.504**

Notes to the Financial Statements

1 Going concern

The annual report of 2016 is prepared under the assumption of going concern.

The financing agreement with Midt Factoring A/S is provided against security in trade receivables.

The secured loan agreement with Gordon Brothers Finance Company is provided against security in the company´s inventory, machinery & equipment and land & building. The secured loan agreement expires in June 2018 but it contains a possibility to negotiate an extension beyond this date. During the loan period, the company is prohibited from distributing dividend or pay management fee to the shareholders.

The secured loan agreement is subject to certain events of default. If an event of default is continuing the lender may cancel the commitment where upon the company shall repay the secured loan immediately.

The financial covenants are determined based on the company´s 2017 budget although the financial covenants do not require a full achievement of the 2017 earnings expectations.

The Budget 2017 is prepared on basis of several assumptions of positive developments, where improved earnings are main targets.

These activities have demonstrated their effects as the company in the first months of 2017 has exceeded targets on both gross profit margin and expenses. The positive developments are expected to continue throughout 2017 and thus ensuring that the financial covenants are being met.

As the assessment of capital resources of the company relies on expectations for the future, uncertainty may be connected to it.

Based on the above stated the Executive Board is of the opinion that an event of default; including breach of financial covenants, will not occur during the loan period. Further, the Executive Board is of the opinion, that the company is going concern.

Notes to the Financial Statements

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK
2 Revenue				
Geographical segments				
Revenue, Scandinavia	188.214	213.614	181.649	213.614
Revenue, Europe	780.573	805.857	765.917	832.618
Revenue, North- and South America	251.063	296.883	251.062	296.883
Revenue, Rest of world	49.536	90.289	51.631	64.226
	1.269.386	**1.406.643**	**1.250.259**	**1.407.341**

3 Staff expenses

Wages and salaries	272.744	299.383	266.953	293.759
Pensions	19.833	22.751	19.833	22.751
Other social security expenses	7.778	9.738	7.778	9.738
Other staff expenses	980	254	258	254
	301.335	**332.126**	**294.822**	**326.502**
Transfer to production wages	-157.142	-174.289	-156.536	-174.289
	144.193	**157.837**	**138.286**	**152.213**
Including remuneration to the Executive Board and Board of Directors	**6.348**	**5.729**	**6.862**	**5.729**
Average number of employees	**673**	**849**	**673**	**813**

The Executive Board have consisted of 3 persons in 2016.

Notes to the Financial Statements

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK
4 Depreciation, amortisation and impairment of intangible assets and property, plant and equipment				
Amortisation of intangible assets	473	0	473	0
Depreciation of property, plant and equipment	17.726	31.436	17.522	31.428
	18.199	**31.436**	**17.995**	**31.428**

5 Financial expenses

Interest paid to group enterprises	3	11	21	46
Other financial expenses	19.656	27.117	18.266	26.716
Exchange adjustments, expenses	441	2.737	1.374	2.737
	20.100	**29.865**	**19.661**	**29.499**

6 Tax on profit/loss for the year

Current tax for the year	491	187	181	187
Deferred tax for the year	-883	-13.961	-657	-13.325
Adjustment of deferred tax concerning previous years	-2.309	0	-2.309	0
	-2.701	**-13.774**	**-2.785**	**-13.138**

Notes to the Financial Statements

7 Intangible assets

Group

	Completed development projects	Development projects in progress	Total
	TDKK	TDKK	TDKK
Cost at 1 January	0	0	0
Additions for the year	0	5.308	5.308
Transfers for the year	3.918	-3.918	0
Cost at 31 December	3.918	1.390	5.308
Impairment losses and amortisation at 1 January	0	0	0
Amortisation for the year	473	0	473
Impairment losses and amortisation at 31 December	473	0	473
Carrying amount at 31 December	**3.445**	**1.390**	**4.835**

The company is developing and designing furniture based on chipboard or MDF, which is covered with foil, melamine or veneer. All developed furniture is sold as ready to assemble furniture in flat-pack.

Notes to the Financial Statements

7 Intangible assets (continued)

Parent

	Completed development projects	Development projects in progress	Total
	TDKK	TDKK	TDKK
Cost at 1 January	0	0	0
Additions for the year	0	5.308	5.308
Transfers for the year	3.918	-3.918	0
Cost at 31 December	3.918	1.390	5.308
Amortisation for the year	473	0	473
Impairment losses and amortisation at 31 December	473	0	473
Carrying amount at 31 December	**3.445**	**1.390**	**4.835**

8 Property, plant and equipment

Group

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	486.234	713.518	96.576	7.252	1.303.580
Additions for the year	2.513	25.808	3.159	14.971	46.451
Disposals for the year	-51.072	-93.484	-7.972	0	-152.528
Cost at 31 December	437.675	645.842	91.763	22.223	1.197.503
Impairment losses and depreciation at 1 January	362.299	664.365	92.185	0	1.118.849
Depreciation for the year	6.786	8.395	2.546	0	17.727
Reversal of impairment and depreciation of sold assets	-44.318	-91.614	-7.972	0	-143.904
Impairment losses and depreciation at 31 December	324.767	581.146	86.759	0	992.672
Carrying amount at 31 December	**112.908**	**64.696**	**5.004**	**22.223**	**204.831**

Notes to the Financial Statements

8 Property, plant and equipment (continued)

Parent

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Property, plant and equipment in progress	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	486.234	713.518	96.526	7.252	1.303.530
Additions for the year	2.513	9.302	3.156	6.595	21.566
Disposals for the year	-51.072	-93.484	-7.972	0	-152.528
Kostpris at 31 December	437.675	629.336	91.710	13.847	1.172.568
Impairment losses and depreciation at 1 January	362.299	664.365	92.183	0	1.118.847
Depreciation for the year	6.786	8.199	2.538	0	17.523
Reversal of impairment and depreciation of sold assets	-44.318	-91.614	-7.972	0	-143.904
Impairment losses and depreciation at 31 December	324.767	580.950	86.749	0	992.466
Carrying amount at 31 December	**112.908**	**48.386**	**4.961**	**13.847**	**180.102**

Notes to the Financial Statements

9 Investments in subsidiaries

	Parent 2016	Parent 2015
	TDKK	TDKK
Cost at 1 January	15.231	10.887
Additions for the year	33.942	4.344
Cost at 31 December	49.173	15.231
Value adjustments at 1 January	-1.962	913
Exchange adjustment	331	-447
Net profit/loss for the year	-243	-2.428
Change in intercompany profit on machinery	-18.689	0
Value adjustments at 31 December	-20.563	-1.962
Carrying amount at 31 December	**28.610**	**13.269**

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Share capital	Votes and ownership
Tvilum GmbH	Munich	190	100%
Tvilum RU LLC	Moscow	6.094	100%
Tvilum ApS Agencia Chile S.A.	Santiago	0	100%
Tvilum Poland Sp. z o.o.	Szczecinek	33.942	100%
Tvilum Australia Pty. Ltd.	Victoria	0	100%

Notes to the Financial Statements

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK
10 Inventories				
Raw materials and consumables	39.923	54.601	36.397	54.601
Work in progress	17.489	16.618	16.372	16.618
Finished goods and goods for resale	118.878	136.012	113.716	134.875
	176.290	**207.231**	**166.485**	**206.094**

11 Prepayments

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

12 Deferred tax asset

	Group 2016	Group 2015	Parent 2016	Parent 2015
Provisions for deferred tax at 1 january	-49.548	-35.591	-48.915	-35.591
Additions for the year	-1.263	-13.957	-809	-13.324
Transferred to deferred tax asset	50.811	49.548	49.724	48.915
	0	**0**	**0**	**0**
Deferred tax asset				
Calculated tax asset	50.811	49.548	49.724	48.915
Carrying amount	**50.811**	**49.548**	**49.724**	**48.915**

Deferred tax asset is recognized in accordance with expectations for the future. The asset is expected to be used within the next 5 years. As the recognition is based om expectations, there may be uncertainly to it.

Notes to the Financial Statements

	Group		Parent	
	2016	2015	2016	2015
	TDKK	TDKK	TDKK	TDKK

13 Other provisions

Other provisions	3.316	3.793	3.316	3.793
	3.316	**3.793**	**3.316**	**3.793**

14 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

Subordinate loan capital				
After 5 years	5.400	5.400	5.400	5.400
Between 1 and 5 years	0	0	0	0
Long-term part	5.400	5.400	5.400	5.400
Within 1 year	0	0	0	0
	5.400	**5.400**	**5.400**	**5.400**
Credit institutions				
Between 1 and 5 years	56.080	0	56.080	0
Long-term part	56.080	0	56.080	0
Within 1 year	9.495	70.883	1.144	70.883
Other short-term debt to credit institutions	139.476	153.047	139.476	153.047
Short-term part	148.971	223.930	140.620	223.930
	205.051	**223.930**	**196.700**	**223.930**

Notes to the Financial Statements

	Group	
	2016	2015
	TDKK	TDKK
15 Cash flow statement - adjustments		
Financial income	-2.448	-2.764
Financial expenses	20.100	29.865
Depreciation, amortisation and impairment losses, including losses and gains on sales	12.009	31.764
Tax on profit/loss for the year	-2.701	-13.774
Other adjustments	502	-373
	27.462	**44.718**

16 Cash flow statement - change in working capital

Change in inventories	30.943	93.689
Change in receivables	36.041	-5.345
Change in other provisions	-477	1.734
Change in trade payables, etc	-44.148	-52.162
	22.359	**37.916**

17 Contingent assets, liabilities and other financial obligations

	Group 2016 TDKK	Group 2015 TDKK	Parent 2016 TDKK	Parent 2015 TDKK
Charges and security				
The following assets have been placed as security with Gordon Brothers Finance Company:				
Land, buildings, plant, machinery and inventory with a carrying amount of	257.280	294.082	257.280	294.082
The following assets have been placed as security with Midt Factoring:				
Trade receivables with a carrying amount of	158.604	197.315	158.604	197.317
Rental and lease obligations				
Lease obligations under operating leases. Total future lease payments:				
Within 1 year	6.675	4.545	6.675	4.545
Between 1 and 5 years	15.338	7.342	15.338	7.342
After 5 years	2.964	1.204	2.964	1.204
	24.977	**13.091**	**24.977**	**13.091**

Other contingent liabilities

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

Notes to the Financial Statements

18 Related parties

	Basis
Controlling interest	
RCG Europe ApS	Majority shareholder
Ultimate ownership:	
RCG Europe Holdings LLC	
2285 Sherwood Rd.	
San Marino, CA 91108	
USA	

Transactions

All transactions have been effected at arm's length.

All transactions are eliminated in the Consolidated Financial Statements in RCG Europe ApS.

Notes, Accounting Policies

Basis of Preparation

The Annual Report of Tvilum ApS for 2016 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C .

The accounting policies applied remain unchanged from last year.

Consolidated and Parent Company Financial Statements for 2016 are presented in TDKK.

Recognition and measurement

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

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

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

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

Basis of consolidation

The Consolidated Financial Statements comprise the Parent Company, Tvilum ApS, and subsidiaries in which the Parent Company directly or indirectly holds more than 50% of the votes or in which the Parent Company, through share ownership or otherwise, exercises control. Enterprises in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are classified as associates.

On consolidation, items of a uniform nature are combined. Elimination is made of intercompany income and expenses, shareholdings, dividends and accounts as well as of realised and unrealised profits and losses on transactions between the consolidated enterprises.

The Parent Company's investments in the consolidated subsidiaries are set off against the Parent Company's share of the net asset value of subsidiaries stated at the time of consolidation.

Notes, Accounting Policies

Leases

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership (finance leases) are recognised in the balance sheet at the lower of the fair value of the leased asset and the net present value of the lease payments computed by applying the interest rate implicit in the lease or an alternative borrowing rate as the discount rate. Assets acquired under finance leases are depreciated and written down for impairment under the same policy as determined for the other fixed assets of the Group.

The remaining lease obligation is capitalised and recognised in the balance sheet under debt, and the interest element on the lease payments is charged over the lease term to the income statement.

All other leases are considered operating leases. Payments made under operating leases are recognised in the income statement on a straight-line basis over the lease term.

Translation policies

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

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

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

Revenue

Information on business segments and geographical segments based on the Group´s risks and returns and its internal financial reporting system. Business segments are regarded as the primary segments.

Income Statement

Revenue

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

Services are recognised at the rate of completion of the service to which the contract relates by using the percentage-of-completion method, which means that revenue equals the selling price of the service com-

Notes, Accounting Policies

pleted for the year. This method is applied when total revenues and expenses in respect of the service and the stage of completion at the balance sheet date can be measured reliably, and it is probable that the economic benefits, including payments, will flow to the Group. The stage of completion is determined on the basis of the ratio between the expenses incurred and the total expected expenses of the service.

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

Expenses for raw materials and consumables

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

Other external expenses

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

Staff expenses

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

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

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

Income from investments in subsidiaries

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

Financial income and expenses

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

Notes, Accounting Policies

Tax on profit/loss for the year

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

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

Balance Sheet

Intangible assets

Development costs and costs relating to rights developed by the Company are recognised in the income statement as costs in the year of acquisition.

Property, plant and equipment

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

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

Interest expenses on loans raised directly for financing the construction of property, plant and equipment are recognised in cost over the period of construction. All indirectly attributable borrowing expenses are recognised in the income statement.

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

Production buildings	15-30	years
Plant and machinery	5-10	years
Other fixtures and fittings, tools and equipment	3-5	years

Depreciation period and residual value are reassessed annually.

Impairment of fixed assets

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

Notes, Accounting Policies

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

Investments in subsidiaries

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

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

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

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

Inventories

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

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

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

Prepayments

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

Notes, Accounting Policies

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Provisions

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

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

Deferred tax assets and liabilities

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

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

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

Current tax receivables and liabilities

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

Financial debts

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

Notes, Accounting Policies

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

Cash Flow Statement

The cash flow statement shows the Group´s cash flows for the year broken down by operating, investing and financing activities, changes for the year 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 net profit/loss for the year adjusted for changes in working capital and non-cash operating items such as depreciation, amortisation and impairment losses, and provisions. Working capital comprises current assets less short-term debt excluding items included in cash and cash equivalents.

Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term debt as well as payments to and from shareholders.

Cash and cash equivalents

Cash and cash equivalents comprise ”Cash at bank and in hand”, ”Current asset investments” and ”Overdraft facilities”. ”Current asset investments” consist of short-term securities with an insignificant risk of value changes that can readily be turned into cash.

The cash flow statement cannot be immediately derived from the published financial records.

Financial Highlights

Explanation of financial ratios

Gross margin	$\frac{\text{Gross profit x 100}}{\text{Revenue}}$
Profit margin	$\frac{\text{Profit before financials x 100}}{\text{Revenue}}$

Notes, Accounting Policies

Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$
Operating Profit margin	$\frac{\text{Operation Profit/Loss (EBITDA) x 100}}{\text{Revenue}}$