# *Jacob Holm & Sønner Holding A/S*

*c/o Accura Advokatpartnerselskab*
*Tuborg Boulevard 1*
*DK-2900 Hellerup*

# Annual Report for 2017

CVR No 28 15 69 60

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 24 April 2018.

Chairman

# Contents

# Management's Statement on the Annual Report

The Executive and Supervisory Boards have today considered and adopted the Annual Report of Jacob Holm & Sønner Holding A/S for the financial year 1 January - 31 December 2017.

The Annual Report is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU as well as further requirements in the Danish Financial Statements Act. We consider the accounting policies applied appropriate and the accounting estimates reasonable.

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the financial position at 31 December 2017 of the Group and the Parent Company and of the results of the Group and Parent Company operations and cash flows for 2017.

In our opinion, Management's Review includes a true and fair account of the issues addressed by the Review as well as a description of the most significant risks and elements of uncertainty facing the Group.

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

Jyderup 24 April 2018

**Executive Board**

Martin Mikkelsen

**Supervisory Board**

| | | |
|---|---|---|
| Nils Thomas Weincke (Chairman) | Christian Peter Søberg Jarnov | Martin Mikkelsen |

# Independent Auditor's Report

To the Shareholder of Jacob Holm & Sønner Holding A/S

## Our opinion

In our opinion, the Consolidated Financial Statements and the Parent Company Financial Statements give a true and fair view of the Group's and the Parent Company's financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and cash flows for the financial year 1 January to 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the EU and further requirements in the Danish Financial Statements Act.

Our opinion is consistent with our Auditor's Long-form Report to the Audit Committee and the Board of Directors.

*What we have audited*
The Consolidated Financial Statements and Parent Company Financial Statements of Jacob Holm & Sønner Holding A/S for the financial year 1 January to 31 December 2017 comprise income statement and statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including summary of significant accounting policies for the Group as well as for the Parent Company. Collectively referred to as the "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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

*Independence*
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. We have also fulfilled our other ethical responsibilities in accordance with the IESBA Code.

To the best of our knowledge and belief, prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No 537/2014 were not provided.

*Appointment*
Jacob Holm & Sønner Holding A/S issued bonds for listing on Oslo Børs in December 2017. Following a reappointment by shareholder resolution in 2018 our engagement period for firm rotation purposes will start from that year.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements for 2017. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| ***Key Audit Matters*** | ***How our audit addressed the Key Audit Matters*** |
|---|---|
| PPE comprises a significant portion of Jacob Holm & Sønner Holding's total assets. A major part of PPE relates to the segment of Jacob Holm Industries' activities in the USA where indicators triggered an impairment test in 2017. | We considered the overall impairment assessment prepared by Management. Main assumptions in Management's PPE impairment test such as expected cash flow projections including remaining useful life and capex needed during the remaining useful life and the applied discount rate were considered. |
| We focused on the PPE impairment test because the process is complex and requires significant management estimates in determining various assumptions, such as cash-flow projections including remaining useful life and capex needed during the remaining | We analyzed the bridge between historical and future cash flows to understand the business dynamics and the impact from newly acquired equipment and to assess whether cash flows expectations were reasonable.<br>We compared remaining useful lives to production lines |

| | |
|---|---|
| useful life and the applied discount rate.<br><br>Refer to note 2 and note 15 to the Consolidated Financial Statements. | elsewhere in the Group.<br><br>In respect of discount rates we used PwC valuation specialists to assess discount rates used by Management. Growth rates were compared to market data. |

## 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 in the audit, or otherwise appears to be materially misstated.

Moreover, we considered whether Management's Review includes the disclosures required by the Danish Financial Statements Act.

Based on the work we have performed, in our view, 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 in Management's Review.

## Management's Responsibility for the 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 International Financial Reporting Standards as adopted by the EU and further requirements in 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 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 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 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 in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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 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 Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events

or conditions may cause the Group or the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the Financial Statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Copenhagen, 24 April 2018

PricewaterhouseCoopers

Statsautoriseret Revisionspartnerselskab

CVR No 33 77 12 31

| | |
|---|---|
| Jens Otto Damgaard | Tue Stensgård Sørensen |
| State Authorised Public Accountant | State Authorised Public Accountant |
| mne9231 | mne32200 |

# Management's Review

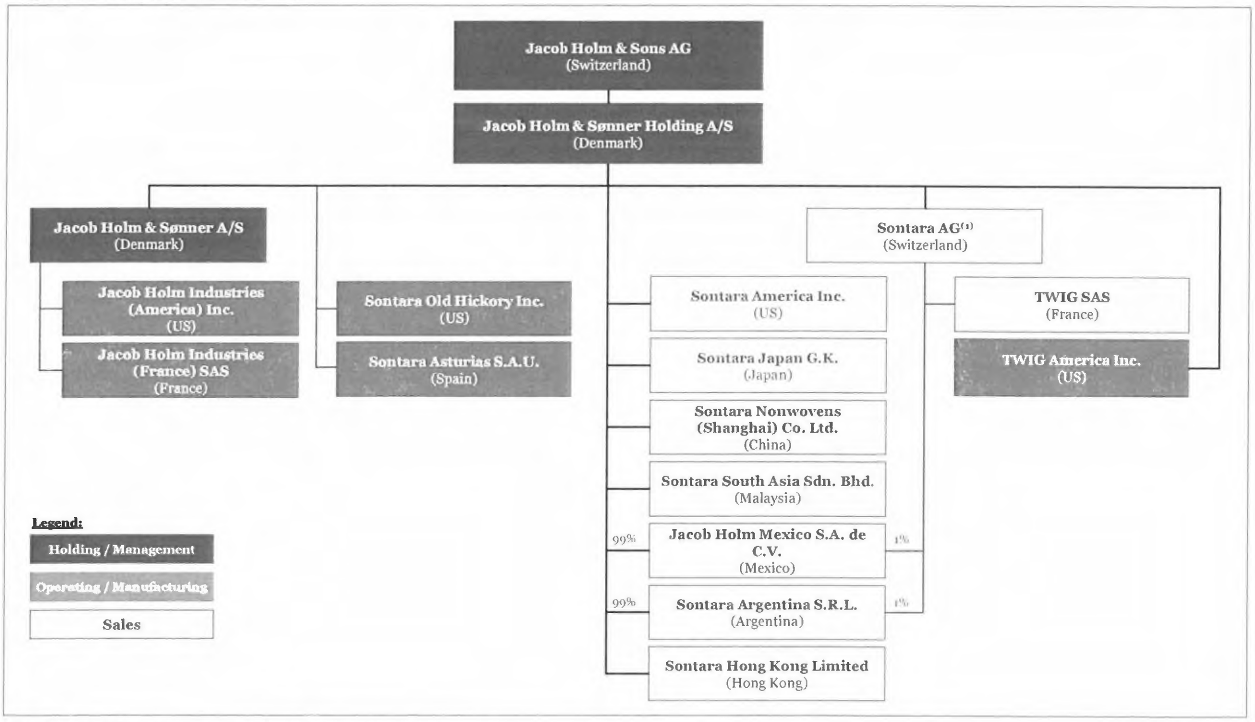
## Company Information

| | | |
|---|---|---|
| **The Company** | Jacob Holm & Sønner Holding A/S<br>c/o Accura Advokatpartnerselskab<br>Tuborg Boulevard 1<br>DK-2900 Hellerup | |
| | CVR No.:<br>Financial year:<br>Municipality of reg. office: | 28 15 69 60<br>1. January – 31 December<br>Gentofte |
| **Ownership** | The following shareholders are recorded in the Company's register of shareholders as holding at least 5% of the share capital or at least 5% of the votes:<br><br>Jacob Holm & Sons AG<br>Picassoplatz 8<br>CH-4052 Basel | |
| **Supervisory Board** | Nils Thomas Weincke (Chairman)<br>Christian Peter Søberg Jarnov<br>Martin Mikkelsen | |
| **Executive Board** | Martin Mikkelsen | |
| **Auditors** | PricewaterhouseCoopers<br>Statsautoriseret Revisionspartnerselskab<br>Strandvejen 44<br>DK-2900 Hellerup | |
| **Consolidated Financial Statements** | The Group is included in the Group Annual Report of the immediate Parent Company Jacob Holm & Sons AG and in the ultimate Parent Company Ammon Ammon AG.<br><br>The Group Annual Report of Jacob Holm & Sons AG may be obtained at the following address:<br><br>Jacob Holm & Sons AG<br>Picassoplatz 8<br>CH-4052 Basel | |

# Management's Review

## Group Chart[1]

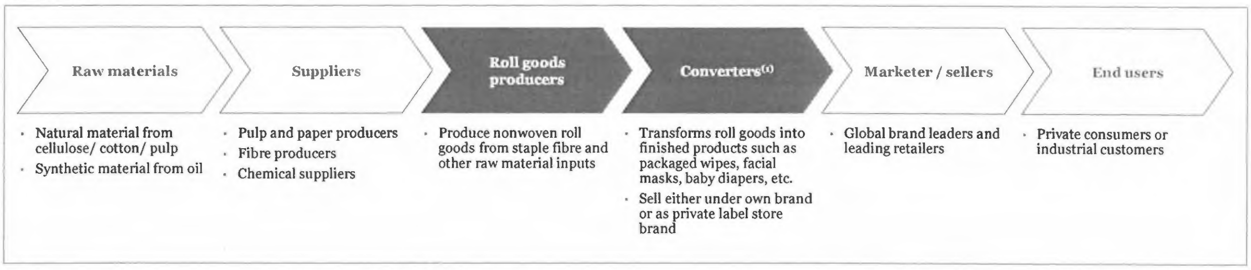
Legal structure as of December 31, 2017




(1) Sontara AG also performs sourcing activities for the Sontara@ segment.

## Business model

Value chain




(1) Jacob Holm Group only performs selected captive finishing for speciality applications.

---

[1] 100% ownership if not indicated otherwise

# Management's Review

## Review

### Main activity of the Group
The Group manufactures nonwoven products for performance applications in hygiene, personal care, beauty care, health care and industrial end-use. As a manufacturer of nonwoven products the Group uses natural and synthetic raw materials and hydro-entangles them to a nonwoven fabric. The fabrics are sold as roll goods to converters who produce the finished product sold to end users. The Group performs selected captive finishing activities for specialty applications itself through its own converting assets at the production sites. A graphical overview of the business model is presented on the previous page.

### Development in the financial year
The financial year 2017 was mainly characterized by the re-organization to a functional organization and the refinancing of the corporate bonds issued in 2014. The Group continued to invest into its operating assets and managed to increase volumes shipped despite the tight supply demand balance in selected product segments in North America, however with a negative impact on unit pricing and consequently operating margin.

The 2017 revenue slightly decreased to around DKK 2.254 million and EBITDA before special items totaled DKK 165 million in 2017, down from DKK 204 million in 2016 (-19.8%).

The net result of the Group amounted to negative DKK 47 million. The Parent Company net result totaled a loss of DKK 3 million.

Group Management considers the results satisfactory given the challenging competitive situation in specific product segments. Further, the result includes non-recurring refinancing costs of DKK 30 million included in finance expenses.

The Group's equity has decreased by DKK 143 million to DKK 351 million, whereas equity of the Parent Company amounted to DKK 192 million. A dividend of DKK 25 million was distributed during 2017.

Cash flows from operating activities in the year amounted to DKK 37 million. Cash flows from investing activities consumed a total of DKK 59 million. Smaller operating asset upgrades and the completion of a major project in one of the production sites accounted for most of the investments. Cash flows from financing activities contributed with DKK 48 million.

The net effect on the Group's cash and cash equivalents in 2017 was positive with DKK 25 million.

### Liquidity
The Group has access to guaranteed un-utilised credit facilities necessary to absorb expected sales increases as well as any fluctuations in tied-up capital due to increasing raw material prices. Further, the Group expects a continued tight control of tied-up working capital.

### Foreign exchange risks
The Group's currencies used for payment are mostly distributed between EUR and USD. A natural hedge of the USD exposure of the European sales is sought obtained through purchases in the same currency. Apart from this, there is no systematic hedging of positions in foreign currency in connection with other operating activities and for the time being the Group's policy aims not to hedge in excess of the natural hedging.

Exchange adjustment of investments in foreign subsidiaries is recognised directly in equity. As a main rule, related exchange risks are not hedged as it is the Group's opinion that current hedging of such long-term investments will not be optimal from an overall risk and cost point of view.

# Management's Review

**Bond**
The Bond issued 1 April 2014 and with maturity date on 3 April 2019 and a floating interest rate has been refinanced in March 2017. Previously it had been among others subject to the following financial covenants;

- Debt/EBITDA ratio
- Interest coverage ratio
- Minimum liquidity

The new bond issued on 31 March 2017 and with maturity date on 31 March 2022 has a floating interest rate and is among others subject to financial covenants, however, only in case the Company issues new debt, refinances existing debt or distributes an annual dividend above EUR 7 million.

**Credit facilities**
The Group's existing agreements regarding credit lines run partly with and partly without any time limit. Credit lines with time limit are basically irrevocable on the part of the bank. Credit lines without time limit follow the bank's terms of business as regards termination both on the part of the bank and on the part of the Group. In general, there are no terms relating to annual renegotiation.

**Expected development for 2018**
The forecast for 2018 based among others on certain foreign exchange rates and raw material price assumptions reflect a turnover above 2017 with a relevant EBITDA number in relation to the turnover and an increase compared to 2017. The result is primarily dependent on the continued profitable utilization of the Group's existing production lines, for which the Group to some extents depends on external factors such as market developments and the competitive situation.

**Statutory statement of social responsibility[2]**

A description of the Group's business model is provided on page 6 above. With regard to the individual aspects of Corporate Social Responsibility ("CSR") the Group maintains the principles and policies detailed below. The Group's Code of Conduct, which is shared with all employees and business partners gives the general principles with regard to CSR. These general principles are:

*Social performance*
The Group's policies in the area of health & safety and in relation to the Group's employees have strong focus on establishing and ensuring a healthy and safe working environment to prevent accidents and injuries, and generally on creating positive relations to the place of work as this is critical for the well-being of the employees.

*Environment and climate*
The Group's policies in the area of environment and climate aim at constantly improving our environmental efforts within the framework of what is technically and financially possible. Besides compliance with current rules and regulations, it means that we promote environmental consciousness and integrate environmental considerations in our activities. This implies, for example, the development and use of sustainable production processes and products as well as a reduction of the consumption of both raw materials and energy resources. Lower consumption of raw materials and energy mean less climate impact. This is done both internally in the Group and in the ongoing dialogue with our business partners.

*Human rights*
The Group respects human rights. The Group's Code of Conduct and policies have a strong focus on establishing and ensuring a professional, safe and secure working environment for its employees. Awareness of the Group's Code of Conduct and relevant policies is ensured by the distribution of these documents to all employees and recurring compliance trainings. The Group recognizes the risk that the reach

---

[2] cf. the Danish Financial Statements Act section 99 (a)

of its supply chains may extend to one or more upstream vendors who have links to sources located in areas of political and military conflict or connected to persons engaged in human rights abuses. Therefore the Group is committed to developing greater transparency in its supply chain and to promoting high ethical standards among its suppliers. The Group is also committed to complying with laws and regulations aimed at promoting these goals.

*Anticorruption*
The Group does not accept corruption and bribery in any of its activities of the Group. Employees are made aware of this through the Code of Conduct and recurring compliance trainings. In addition, the Group has provided its employees with an app on their mobile devices that provides easy-to-understand behavioral guidelines in high-risk situations.

**Perceived risks**
The Group management has reviewed potential risks in the aforementioned areas of CSR, and has identified no risks other than the ones addressed by the initiated activities and results below. In particular no Human Rights abuses or corrupt practices have come to the attention of the Group management during the business year.

The Group does currently not use a structured CSR due diligence approach in its supplier selection and has not defined KPI for the aforementioned areas of CSR. However, the Group management will continue to review potential risks and aims to implement due diligence processes and KPI based on the results of such review.

**Initiated activities and results**
*Social performance*
The Group assumes social responsibility for its employees and the surrounding society. This is done by implementing safety measures in the production units i.e. via training and ensuring current dialogue with and on the health & safety of the employees.

The number of accidents in the production units resulting in absence has increased from 5 in 2016 to 6 in 2017. The number of accidents without absence increased from 10 in 2016 to 11 in 2017. This shows a similar level year over year on a minor decrease in the average number of employees in 2016 of 637 to 635 in 2017. The accidents ratio per average employee has increased from 2.35% in 2016 to 2.68% in 2017.

The Group will continue its efforts to improve the working environment in order to reduce the number of working accidents

*Environment and climate*
The Group's activities in the environmental area concentrate on preventing negative environmental impact. This is done through the use of sustainable production processes and a progressive use of raw materials that are environmentally neutral. In particular with regard to paper and wood based fibers, we endeavor to use suppliers that process wood from sustainable sources. The Group also performs continuous follow-ups to ensure that the actual consumption and environmental impact correspond to expectations and that current legislation is complied with.

Investments in production assets in 2017 and in previous years have contributed to a continued reduction of waste, emissions, and energy consumption. The Group expects continued improvement of the utilization of its raw materials and waste reduction.

*Human rights*
In line with the Group's Code of Conduct, the Group continues to enforce the protection of internationally proclaimed human rights and the commitment to not condone or allow human rights abuses. This is reflected in particular in the labor policies of the Group's subsidiaries.

The Group management is aware of the necessity to ensure Human Rights compliance upstream in the value chain, and the Group therefore continues to include provisions forbidding the use of child labor and/or forced labor, in contracts with suppliers and contract manufacturers.

# Management's Review

Review of Human Rights related issues is part of the annual legal and compliance audits conducted in all entities of the Group. In face-to-face interviews in the course annual legal and compliance audits, human resources managers and other employees are also requested to report on individual cases of unlawful harassment and the measures taken to prevent them. Findings made during these audits, as well as improvement actions are collected in audit reports, with follow-ups during subsequent audits.

*Anticorruption*
The identification and prevention of potential corrupt practices is also a part of the annual legal and compliance audits performed by the Group's legal department on all Group subsidiaries. These audits include face-to-face interviews with key employees and the review of internal processes. Findings made during these audits, as well as improvement actions are collected in audit reports, with follow-ups during subsequent audits.

In countries with a heightened corruption risk all financial transactions follow the four-eye principle, whereby one of the authorizing employees will be based in the operational headquarter.

The Group also maintains a online whistleblower hotline that allows for anonymous reporting of misconduct. Employees also have the possibility to access the hotline through an app on their mobile devices and are strongly encouraged to report misconduct. During recurring compliance trainings employees are informed about expected behavioral norms, how to avoid high-risk situations, and how to report corrupt practices.

### Statutory statement regarding the underrepresented gender[3]

*Target for the Board of Directors*
Jacob Holm & Sønner Holding A/S intends to achieve a more balanced gender representation on the Board of Directors over time. Candidates will be assessed on basis of qualification needed in order to supplement the rest of the Board of Directors and the Group going forward. Currently, the target is set at having one woman on the Board of Directors within the end of 2019 latest.

The representation of women on the Board of Directors is 0% at the moment. A change in the Board of Directors depends on the development in the Group, and in 2017 there has been no opportunity to expand or change the composition of the Board that the target has not yet been met.

Neither the parent holding company nor any of the Danish subsidiaries are obligated to report on policies regarding the underrepresented gender in remaining levels of management. The exception is due to the parent holding company having less than 50 employees. As such no policies have been disclosed in these financial statements.

[3] cf. the Danish Financial Statements Act section 99 (b)

# Management's Review

## Financial Highlights

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

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| **Key figures** | | | | | |
| **Income statement** | | | | | |
| Revenue | 2.254.386 | 2.350.781 | 2.369.955 | 1.337.435 | 945.181 |
| Operating profit | 37.190 | 77.742 | 101.795 | 56.382 | 31.811 |
| Profit before financial income and expenses and special items | 37.858 | 78.025 | 102.611 | 56.304 | 30.505 |
| Special items, net | -1.706 | -1.281 | -2.625 | -37.439 | -2.526 |
| Net financials | -110.424 | -19.255 | -16.645 | 16.843 | -4.528 |
| Profit before tax | -74.272 | 57.489 | 83.341 | 35.708 | 23.451 |
| Tax on profit for the year | 26.844 | -7.776 | -17.993 | -13.282 | -4.539 |
| Net profit for the year | -47.428 | 49.713 | 65.348 | 22.426 | 18.912 |
| **Balance sheet** | | | | | |
| Balance sheet total | 1.652.985 | 1.799.316 | 1.833.989 | 1.731.325 | 663.610 |
| Equity | 350.933 | 493.527 | 453.318 | 374.771 | 328.265 |
| **Cash flows from:** | | | | | |
| - operating activities | 36.627 | 256.701 | 136.032 | 57.904 | 72.935 |
| - investing activities | -59.345 | -73.835 | -216.691 | -708.297 | -53.213 |
| - including investment in property, plant and equipment | -56.139 | -75.691 | -217.399 | -266.594 | -60.340 |
| - financing activities | 47.696 | -82.501 | 36.870 | 606.998 | 16.153 |
| Change in cash and cash equivalents for the year | 24.978 | 100.365 | -43.789 | -43.395 | 35.875 |
| **Number of employees** | 635 | 637 | 556 | 324 | 222 |
| **Ratios in percent** | | | | | |
| Profit margin | 1,7 | 3,3 | 4,3 | 4,2 | 3,2 |
| Return on assets | 2,3 | 4,3 | 5,6 | 3,3 | 4,6 |
| Solvency ratio | 21,2 | 27,4 | 24,7 | 21,6 | 49,5 |
| Liquidity ratio | 141,0 | 121,3 | 46,6 | 133,1 | 130,6 |
| Return on equity | -11,2 | 10,5 | 15,8 | 6,4 | 5,8 |

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

# Management's Review

## Performance measures and financial ratios

Performance measures referred to in the annual report are defined as follows:

EBITDA: Operating profit + amortization of intangible assets, depreciation of property, plant and equipment and +/- losses and gains on disposal of intangible assets and property, plant and equipment.

Financial ratios are calculated as follows:

$$\text{Profit margin} = \frac{\textit{Profit before financials x 100}}{\textit{Revenue}}$$

$$\text{Return on assets} = \frac{\textit{Profit before financials x 100}}{\textit{Total assets}}$$

$$\text{Solvency ratio} = \frac{\textit{Equity at year end x 100}}{\textit{Total assets}}$$

$$\text{Liquidity ratio} = \frac{\textit{Current assets x 100}}{\textit{Current liabilities}}$$

$$\text{Return on equity} = \frac{\textit{Net profit for the year x 100}}{\textit{Average equity}}$$

# Consolidated Income Statement 1 January - 31 December

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| **Revenue** | 4 | **2.254.386** | **2.350.781** |
| Cost of goods sold | 5 | -2.048.920 | -2.081.016 |
| **Gross profit** | | **205.466** | **269.765** |
| Sales and marketing expenses | 5 | -44.481 | -46.902 |
| Administrative expenses | 5 | -123.795 | -145.121 |
| **Operating profit** | | **37.190** | **77.742** |
| Other operating income and expenses | 10 | 668 | 283 |
| **Profit before special items and financial income and expenses** | | **37.858** | **78.025** |
| Special items, net | 6 | -1.706 | -1.281 |
| **Operating profit** | | **36.152** | **76.744** |
| Financial income | 11 | 6.120 | 34.841 |
| Financial expenses | 12 | -116.544 | -54.096 |
| **Profit before tax** | | **-74.272** | **57.489** |
| Tax on profit for the year | 13 | 26.844 | -7.776 |
| **Net profit for the year** | | **-47.428** | **49.713** |

# Consolidated Statement of Comprehensive Income 1 January - 31 December

| | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |
| **Statement of Comprehensive Income 1 January - 31 December** | | |
| Net profit for the year | -47.428 | 49.713 |
| ***Items that may be subsequently reclassified to profit or loss*** | | |
| Exchange adjustment, foreign companies | -70.166 | 10.496 |
| **Comprehensive income** | **-117.594** | **60.209** |

# Consolidated Balance Sheet at 31 December

## Assets

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | DKK'000 | DKK'000 |
| Goodwill | | 85.952 | 93.491 |
| Customer lists, know-how, patents and licenses | | 8.096 | 10.913 |
| Software | | 24.282 | 34.128 |
| **Intangible fixed assets** | 14 | **118.827** | **138.532** |
| Land and buildings | | 227.539 | 265.178 |
| Plant and machinery | | 596.572 | 722.044 |
| Other fixtures and fittings, tools and equipment | | 13.870 | 15.342 |
| Property, plant and equipment under construction | | 25.367 | 20.805 |
| **Property, plant and equipment** | 15 | **863.348** | **1.023.369** |
| Other receivables | | 3.443 | 2.030 |
| Deferred tax asset | 21 | 15.594 | 13.902 |
| **Financial fixed assets** | | **19.037** | **15.932** |
| **Non-current assets** | | **1.001.212** | **1.177.833** |
| **Inventories** | 16 | **164.300** | **177.102** |
| Corporation tax | 17 | 1.384 | 267 |
| Trade receivables | 18 | 298.476 | 309.713 |
| Bonds at fair value through profit and loss | | 8.479 | 9.515 |
| Other receivables | 18 | 45.880 | 36.146 |
| Prepayments | | 2.798 | 5.343 |
| **Receivables** | | **357.017** | **360.984** |
| **Cash at bank and in hand** | | **130.456** | **83.397** |
| **Current assets** | | **651.773** | **621.483** |
| **Assets** | | **1.652.985** | **1.799.316** |

# Consolidated Balance Sheet at 31 December

## Equity and liabilities

| | Note | 2017 DKK'000 | 2016 DKK'000 |
|---|---|---|---|
| Share capital | 19 | 1.000 | 1.000 |
| Reserve for currency translations | | 17.016 | 87.182 |
| Retained earnings | | 332.917 | 405.345 |
| **Equity** | | **350.933** | **493.527** |
| Bond | 20 | 734.502 | 496.993 |
| Credit institutions | 24 | 85.765 | 236.442 |
| Provisions for deferred tax | 21 | 6.693 | 46.277 |
| Provisions for other staff obligations | 22 | 6.734 | 6.512 |
| Provisions for other liabilities and charges | 23 | 6.210 | 7.050 |
| **Non-current liabilities** | | **839.904** | **793.274** |
| Current portion of non-current liabilities | | 37.281 | 61.355 |
| Credit institutions | 24 | 139.250 | 114.941 |
| Trade payables | | 171.678 | 188.785 |
| Payables, plant and machinery | | 2.069 | 6.875 |
| Payables to related companies | 31 | 3.088 | 7.362 |
| Corporation tax | 25 | 10.592 | 18.921 |
| Other payables | | 98.190 | 114.276 |
| **Current liabilities** | | **462.148** | **512.515** |
| **Liabilities** | | **1.302.052** | **1.305.789** |
| **Equity and liabilities** | | **1.652.985** | **1.799.316** |
| Fee to auditors appointed at the annual general meeting | 8 | | |
| Contingent liabilities and other financial obligations | 29 | | |
| Financial risks | 30 | | |
| Related parties | 31 | | |
| Development costs | 32 | | |
| Post balance sheet events | 33 | | |
| Dividends per share | 34 | | |

# Statement of Changes in Equity, Group 1 January - 31 December

| | Share capital | Reserve for currency translations | Retained earnings | Total |
|---|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| **Equity** | | | | |
| Equity at 1 January 2017 | 1.000 | 87.182 | 405.345 | 493.527 |
| Comprehensive income for the year | 0 | -70.166 | -47.428 | -117.594 |
| Dividends | 0 | 0 | -25.000 | -25.000 |
| **Equity at 31 December 2017** | **1.000** | **17.016** | **332.917** | **350.933** |
| Equity at 1 January 2016 | 1.000 | 76.686 | 375.632 | 453.318 |
| Comprehensive income for the year | 0 | 10.496 | 49.713 | 60.209 |
| Dividends | 0 | 0 | -20.000 | -20.000 |
| **Equity at 31 December 2016** | **1.000** | **87.182** | **405.345** | **493.527** |

Paid dividends per share in 2017 amounts to DKK 25 (DKK 20 in 2016)

Only the share capital is restricted. Other reserves may be distributed.

# Consolidated Cash Flow Statement

| | Note | 2017 | 2016 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| Net profit for the year | | -47.428 | 49.713 |
| Adjustments of non-cash items | 26 | 210.345 | 153.501 |
| Change in working capital | 27 | -37.726 | 98.206 |
| Cash flows from operating activities before financial income and expenses and tax | | 125.191 | 301.420 |
| Financial income | | 36.180 | 8.048 |
| Financial expenses | | -104.866 | -49.528 |
| Corporation tax paid | | -19.878 | -3.239 |
| **Cash flows from operating activities** | | **36.627** | **256.701** |
| Purchase of intangible fixed assets | | -3.339 | -1.248 |
| Purchase of property, plant and equipment | | -56.139 | -75.691 |
| Purchase of financial fixed assets | | -1.434 | -1.413 |
| Sale of property, plant and equipment | | 531 | 854 |
| Sale of bonds at fair value through profit and loss | | 1.036 | 3.663 |
| **Cash flows from investing activities** | | **-59.345** | **-73.835** |
| Change in accounts with related parties | | -4.275 | 8.069 |
| Raising of non-current loans | | 732.249 | 0 |
| Repayment of non-current loans | | -655.278 | -70.570 |
| Dividend paid | | -25.000 | -20.000 |
| **Cash flows from financing activities** | | **47.696** | **-82.501** |
| **Change in cash and cash equivalents** | | **24.978** | **100.365** |
| Cash and cash equivalents at 1 January | | -31.544 | -131.013 |
| Exchange adjustment of cash at bank and in hand at 1 January | | -2.228 | -896 |
| **Cash and cash equivalents at 31 December** | | **-8.794** | **-31.544** |
| specified as follows: | | | |
| Cash at bank and in hand | | 130.456 | 83.397 |
| Credit institutions (current liabilities) | | -139.250 | -114.941 |
| | | **-8.794** | **-31.544** |

# Notes to the Annual Report, Group

## 1 Accounting Policies

The Annual Report of Jacob Holm & Sønner Holding A/S for 2017 is prepared in accordance with International Financial Reporting Standards (IFRS) and further requirements in the Danish Financial Statements Act.

The Annual Report for 2017 is presented in DKK '000.

The applied accounting policies are unchanged compared to the previous year.

**New standards, amendments and interpretations not yet adopted**
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing the consolidated financial statement.

**IFRS 9, 'Financial instruments'** addresses the requirements for recognition and measurement, impairment, derecognition and general hedge accounting. A new credit loss model has replaced the incurred loss impairment model used in IAS 39. The standard becomes effective from 2018, and the Group will implement the standard when it becomes effective. The implementation of IFRS 9 will have no effect on the income statements and balance sheets for 2017 and previous years.

**IFRS 15, 'Revenue from contracts with customers'** deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations and becomes effective from 2018. The Group will implement the standard when it becomes effective. The Group assess that there will be no impact on the Group from IFRS 15.

**IFRS 16, "Leases"**, which amends the rules for the lessee's accounting treatment of operating leases. In future, operating leases must therefore be recognised in the balance sheet as lease assets and similar lease liabilities. The standard has not yet been adopted by the EU and will become effective for financial years beginning on or after 1 January 2019. The Group expects to implement the standard when it becomes effective. The Group is in the process of examining the effect of the standard, which cannot yet be calculated.

The IASB has approved further new standards and interpretations that are not relevant to Jacob Holm & Sønner Holding A/S and will have no effect on the Financial Statements.

# Notes to the Annual Report, Group

## 1 Accounting Policies (continued)

### Consolidated Financial Statements

The Consolidated Financial Statements comprise the Parent Company Jacob Holm & Sønner Holding A/S and its subsidiaries. Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The Consolidated Financial Statements are prepared on the basis of the Financial Statements of the Parent Company and the group companies by combining items of a uniform nature, and elimination is made of intercompany income and expenses, intercompany accounts as well as profits and losses on transactions between the consolidated companies. The results of foreign group companies are translated into Danish kroner at average exchange rates. The balance sheets are translated into Danish kroner at the exchange rates at the balance sheet date. Exchange adjustments in this connection are made over the statement of comprehensive income.

### Business combinations

On acquisition of subsidiaries including acquisition of subsidiaries under common control, the acquisition method is applied.

Purchase price of acquired assets, liabilities and contingent liabilities are initially measured at fair value at the time of acquisition. Identifiable intangible fixed assets are recognised if they can be separated and the fair value can be measured reliably. Deferred tax is recognised on re-measurements made. Any remaining positive differences between the cost and the fair value of assets, liabilities and contingent liabilities acquired are recognised in intangible fixed assets in the balance sheet as goodwill. Goodwill is not amortised, but is tested for impairment on an annual basis.

### Foreign currencies

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Danish Kroner which is the parent company's functional and presentation currency.

Transactions in foreign currencies are initially recognised 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.

Receivables, payables and other monetary items in foreign currencies are translated at the exchange rates at the balance sheet date. Differences between the exchange rates at the balance sheet date and the rates at the time of the establishment of the receivable or payable or recognition in the most recent Financial Statements are recognised in financial income and expenses in the income statement.

# Notes to the Annual Report, Group

**1 Accounting Policies** (continued)

Balance sheet items including goodwill for consolidated companies that do not have DKK as their functional currency are translated into DKK at the exchange rates at the balance sheet date, whereas the income statements of these companies are translated at average exchange rates for each end of month during the financial year. Exchange adjustments arising on the translation of the opening equity at year-end rates and net profit for the year at year-end rates are recognised directly in equity under a separate reserve for exchange adjustments.

## Income Statement

### Revenue and recognition of income

Revenue from sale of goods is measured at fair value of the consideration received net of goods sold excluding VAT and net of provisions for returns, discounts, etc.

Revenue from the sale of goods is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities. In general revenue is recognized when the goods are delivered in accordance with the agreed upon contractual terms.

### Cost of goods sold

Cost of goods sold comprises costs incurred to achieve revenue for the year. Cost comprises raw materials, consumables, direct labour costs and indirect production costs such as maintenance and depreciation, etc. as well as operation, administration and management of factories and distribution expenses including salaries to distribution staff.

Cost of goods sold also includes research and development costs that do not qualify for capitalisation as well as amortisation of capitalised development costs.

### Sales and marketing expenses

Sales and marketing expenses comprise costs in the form of salaries to sales staff, advertising and marketing expenses as well as operation of motor vehicles, depreciation, etc.

### Administrative expenses

Administrative expenses comprise expenses for Management, administrative staff, office expenses, depreciation, etc.

### Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the core activities of the companies, including gains and losses on disposals of intangible fixed assets and property, plant and equipment as well as subsidies received which do not directly relate to the purchase of non-current assets.

# Notes to the Annual Report, Group

## 1 Accounting Policies (continued)

### Special items

Special items comprise income and expenses outside normal operations which are at the same time non-recurring income and expenses. Special items comprise income and expense arising from events and transactions such as due diligence regarding potential acquisitions, integration costs and larger restructuring or organisational changes.

### Financial income and expenses

Financial income and expenses comprise interest income and expense including amortisation of transaction cost and premium/discounts (effective interest method), financial expenses in respect of finance leases, realised and unrealised exchange adjustments and fair value changes on securities.

Financial expenses directly attributable to the purchases or construction of a qualifying asset are included as part of the cost price of to the asset. All other financial expenses are recognised in the income statement.

A qualifying asset is an asset for which considerable time is required to make it ready for its intended use.

### Tax on profit for the year

Tax for the year consists of current tax for the year and 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 items recognised in other comprehensive income is recognised in other comprehensive income and tax attributable to equity transactions is recognised directly in equity.

Any changes in deferred tax due to changes to tax rates are recognised in the income statement.

## Balance Sheet

### Intangible fixed assets

Goodwill represents the excess of the cost of an acquisition over the fair value of identifiable net assets of the acquired enterprise. Goodwill is measured at historical cost less accumulated impairment losses. Goodwill is not amortised. The carrying amount of goodwill is allocated to the Group's operating segments. The allocation is completed no later than at the end of the reporting period following the acquisition.

Goodwill is tested for impairment annually or on indication of impairment. In the event of impairment, the carrying amount is written down to the value in use. Impairment charges on goodwill are not reversed.

## 1 Accounting Policies (continued)

Customer lists, know-how, patents and licenses and software are measured at cost less accumulated amortisation. Amortisation is made on a straight-line basis over the expected useful life, which are;

| | |
|---|---|
| Customer lists, know-how, patents and licenses | 3-10 years |
| Software | 3-5 years |

**Property, plant and equipment**

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

Cost comprises the purchase price and costs which are directly attributable to the acquisition up until the time when the asset is ready for use. In the case of assets of own construction, cost comprises directly attributable costs for labour, materials, components and sub-suppliers. The cost price of new product lines comprise costs related to the commissioning of the production line up until the point in time where the production line is ready for commercial production. Commissioning costs comprise costs such as test runs and repair and maintenance activities.

The initial estimate of the costs of dismantling assets for which there is a legal obligation to dismantle at the end of the useful life of the asset is included as part of the cost price of the asset.

Income from the sale of products during the commissioning period is set off against the cost of the asset.

Government grants received are set off against the cost of assets qualifying for the subsidy.

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:

| | |
|---|---|
| Buildings | 30-50 years |
| Plant and machinery | 10-15 years |
| Other fixtures and fittings, tools and equipment | 3-10 years |

Spare parts included in plant and machinery are depreciated over 5 years.

Gains or losses from the sale of property, plant and equipment are calculated as the difference between the selling price net of selling expenses and the carrying amount at the time of the sale. Gains or losses from current replacement of property, plant and equipment are recognised in other operating income and expenses in the income statement.

# Notes to the Annual Report, Group

## 1 Accounting Policies (continued)

### 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. If so, an impairment test is carried out to determine whether the recoverable amount is lower than the carrying amount, and the asset is written down to its lower recoverable amount.

The asset is written down to its recoverable amount if this is lower than the carrying amount. The recoverable amount of the asset is calculated as the higher of net selling price and value in use. Where a recoverable amount cannot be determined for the individual asset, the assets are assessed in the smallest group of assets for which a reliable recoverable amount can be determined based on a total assessment.

Impairment losses are reversed to the extent that changes have taken place in the assumptions or estimates leading to the write-down for impairment. Impairment losses are only reversed to the extent that the new carrying amount of the asset does not exceed the carrying amount which the asset would have had, had it not been written down for impairment. Impairment on goodwill is not reversed.

### Financial fixed assets

### Other receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

### Bonds at fair value through profit or loss

Bonds at fair value through profit or loss are financial assets held for trading. Bonds are classified in this category if acquired principally for the purpose of selling in the short term.

### 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 in the process of normal operations with deduction of selling expenses and costs of completion. The net realisable value is determined allowing for marketability, obsolescence and development in sales price.

The cost of goods for resale, raw materials and consumables equals cost including freight, duty etc.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour as well as directly attributable labour and production costs. These costs also comprise maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of production management.

# Notes to the Annual Report, Group

1 **Accounting Policies** (continued)

### Receivables

Receivables are measured in the balance sheet at the lower of amortised cost and net realisable value, which corresponds to nominal value less provisions for bad debts. Provisions for bad debts are determined on the basis of an individual assessment of each receivable.

### Dividend

Dividend is recognised as a liability at the time of adoption at the Annual General Meeting. Dividend expected to be paid for the year is disclosed as a separate equity item.

### Corporation tax and deferred tax

Current tax liabilities and receivables are recognised in the balance sheet as tax calculated on the taxable income for the year adjusted for tax on taxable income for prior years and for taxes paid on account.

Deferred tax is measured according to the balance-sheet liability method in respect of all temporary differences between the carrying amount and the tax base of assets and liabilities.

However, deferred tax is not recognised in respect of temporary differences arising on the initial recognition of an asset or a liability which is not acquired in a business combination and which does neither affect profit for the year or the taxable income. In cases where the computation of the tax base may be made according to alternative tax rules, deferred tax is measured 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 recognised at the value at which they are expected to be utilised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity and jurisdiction.

Deferred tax is measured on the basis of the tax rules and tax rates in the respective countries 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 unless the deferred tax relates to equity entries.

The Company is jointly taxed with the Danish group company. Foreign group companies are not comprised by the joint taxation.

The tax effect of the joint taxation is allocated to both profits and losses in proportion to the taxable income. The jointly taxed companies have adopted the on-account taxation scheme.

### Staff obligations

Wages and salaries, social security contributions, paid absence and sickness absence, bonuses and non-monetary contributions are recognised in the financial year in which the Group's employees have performed the related work. Expenses relating to the Group's long-term staff benefits are accrued so that they follow the performance of work by the employees concerned.

# Notes to the Annual Report, Group

1 **Accounting Policies** (continued)

The Group's pension schemes comprise defined contribution plans.

Moreover, provisions are made for seniority based bonuses earned over the employment period under the projected unit credit method. The effect of re-measuring the liability due to changes in actuarial assumptions is recognised in the income statement.

### Provisions

Provisions are recognised when – as a result of an event occurred before or on the balance sheet date – the Company has a legal or constructive obligation and it is probable that economic benefits must be given up to settle the obligation. Provisions comprise mainly dismantling cost related to assets held on leased land.

Provisions are measured at Management's best estimate of the amount at which the liability is expected to be settled. At the measurement of provisions, discounting is made of the expenses necessary to settle the liability if this has a material effect on the measurement of the liability.

### Financial liabilities

Financial liabilities are recognised at the date of borrowing at fair value less related transaction costs paid. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. Any difference between the proceeds initially received and the nominal value is recognised in the income statement under Financial expenses over the term of the loan.

Financial liabilities also include the capitalised residual obligations on finance leases, which are measured at amortised cost.

## Cash Flow Statement

The cash flow statement presents 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 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 for the year adjusted for non-cash operating items, changes in working capital, financial income/expenses and corporation tax paid.

### Cash flows from investing activities

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

# Notes to the Annual Report, Group

1 **Accounting Policies** (continued)

### Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of non-current liabilities as well as payments to and from shareholders.

### Cash and cash equivalents

Cash and cash equivalents comprise the item "Cash at bank and in hand" under current assets net of current credits with banks that constitute an integrated part of the Group's current cash management.

The cash flow statement cannot be immediately derived from the information provided in these financial statements.

### Segment information

Operating segments are reported in a manner consistent with the internal reporting to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors and Executive Management. The operating segments have been determined based on the financial reports reviewed by the Board of Directors and Executive Management.

The accounting policies of the reportable segments are the same as the Group's accounting policies described above.

Net profit is the measurement reported to the Board of Directors and Executive Management for the purposes of resource allocation and assessment of segment performance.

In presenting information on the basis of geographical markets the information is based on the geographical location of the enterprises in each segment.

### Accounting policies relevant only for the parent company

### Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost in the Parent Company Financial Statements.

Impairment tests are performed on subsidiaries if events or changes in circumstances indicate that their carrying amount may not be recoverable. Where cost exceeds the recoverable amount, the carrying amount is written down to the recoverable amount.

# Notes to the Annual Report, Group

## 2 Significant accounting estimates

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that Management believes are reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by nature, seldom equal the actual outcome. The estimates and assumptions that have a significant risk of resulting in a material adjustment to the carrying amounts of assets within the next financial year are discussed below.

*Impairment test - Goodwill*

Goodwill is not amortised but is subject to an annual impairment test. In Management's view, the assumptions applied reflect the market conditions existing as of 31 December 2017. The impairment test is a complex process that requires significant Management judgement in determining various assumptions, such as general market development, cash-flow projections, discount rates and terminal growth rates. The assumptions for significant goodwill amounts are set out in note 14.

*Impairment test - Property Plant and Equipment (PPE)*

An impairment test has been performed on PPE related to the Jacob Holm Industries segment's PPE in USA. In Management's view, the assumptions applied reflect the market conditions existing as of 31 December 2017. The impairment test is a complex process that requires significant Management judgement in determining various assumptions, such as cash-flow projections including remaining useful life and capex needed during the remaining useful life and the applied discount rate.

## 3 Segment information

The Jacob Holm Industries segment produces and sells non-woven roll-goods.

The Sontara segment produces and sells non-woven in converted and roll-goods form.

The TWIG segment primarily provides internal converting and logistic services.

The Headquarter segment consists of the Danish holding and management companies Jacob Holm & Sønner Holding A/S and Jacob Holm & Sønner A/S.

No operating segments have been aggregated.

# Notes to the Annual Report, Group

## 3 Segment information (continued)

| *2017*<br>**Income statement** | **Jacob Holm Industries**<br>DKK '000 | **Sontara**<br>DKK '000 | **TWIG**<br>DKK '000 | **Headquarter**<br>DKK '000 | **Eliminations**<br>DKK '000 | **Group**<br>DKK '000 |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| *Inter-segment revenue* | 1.536 | 0 | 49.155 | 2.164 | -52.855 | 0 |
| *External revenue* | 950.998 | 1.296.675 | 6.713 | 0 | 0 | 2.254.386 |
| EBITDA | 17.708 | 143.563 | 5.183 | -1.920 | 0 | 164.534 |
| Depreciation, amortization and impairment losses | 79.980 | 46.383 | 287 | 44 | 0 | 126.694 |
| Special items, net | 349 | 1.357 | 0 | 0 | 0 | 1.706 |
| Financial income | 137 | 4.141 | 32 | 90.116 | -88.306 | 6.120 |
| Financial expenses | -27.482 | -14.047 | 0 | -104.926 | 29.911 | -116.544 |
| Income tax income/expense | -18.308 | 12.452 | 819 | -21.807 | 0 | -26.844 |
| Profit or loss | -71.682 | 73.506 | 4.109 | 5.034 | -58.395 | -47.428 |
| **Balance sheet** | | | | | | |
| Non-current assets | | | | | | |
| *- including investment in property, plant and equipment* | 729.507 | 269.590 | 1.394 | 1.356.234 | -1.355.513 | 1.001.212 |
| *Additions to non-current assets* | 19.658 | 35.654 | 761 | 0 | 0 | 56.073 |
| Current assets | 239.618 | 495.070 | 17.898 | 299.667 | -400.480 | 651.773 |
| Total assets | 969.125 | 764.660 | 19.292 | 1.655.901 | -1.755.993 | 1.652.985 |
| Non-current liabilities | 205.362 | 154.914 | 0 | 741.195 | -261.567 | 839.904 |
| Current liabilities | 276.159 | 301.853 | 4.995 | 279.622 | -400.481 | 462.148 |
| Total Liabilities | 481.521 | 456.767 | 4.995 | 1.020.817 | -662.048 | 1.302.052 |

| *2016*<br>**Income statement** | **Jacob Holm Industries**<br>DKK '000 | **Sontara**<br>DKK '000 | **TWIG**<br>DKK '000 | **Headquarter**<br>DKK '000 | **Eliminations**<br>DKK '000 | **Group**<br>DKK '000 |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| *Inter-segment revenue* | 4.549 | 0 | 26.367 | 2.811 | -33.727 | 0 |
| *External revenue* | 1.034.670 | 1.298.818 | 17.293 | 0 | 0 | 2.350.781 |
| EBITDA | 79.307 | 120.073 | 6.436 | -1.411 | 0 | 204.405 |
| Depreciation, amortization and impairment losses | 82.293 | 43.505 | 182 | 33 | 0 | 126.013 |
| Special items, net | 0 | 1.281 | 0 | 0 | 0 | 1.281 |
| Financial income | 1.689 | 2.412 | 204 | 90.320 | -59.784 | 34.841 |
| Financial expenses | -26.711 | -15.241 | -36 | -37.292 | 25.184 | -54.096 |
| Income tax income/expense | -9.421 | 12.193 | 1.190 | 3.814 | 0 | 7.776 |
| Profit or loss | -18.914 | 50.224 | 5.233 | 47.770 | -34.600 | 49.713 |
| **Balance sheet** | | | | | | |
| Non-current assets | | | | | | |
| *- including investment in property, plant and equipment* | 871.084 | 305.221 | 1.064 | 1.319.421 | -1.318.957 | 1.177.833 |
| *Additions to non-current assets* | 17.385 | 37.850 | 654 | 175 | 0 | 56.064 |
| Current assets | 203.946 | 501.939 | 17.784 | 116.057 | -218.243 | 621.483 |
| Total assets | 1.075.030 | 807.160 | 18.848 | 1.435.478 | -1.537.200 | 1.799.316 |
| Non-current liabilities | 382.122 | 141.025 | 0 | 525.194 | -255.066 | 793.275 |
| Current liabilities | 271.528 | 344.030 | 7.625 | 107.575 | -218.244 | 512.514 |
| Total Liabilities | 653.650 | 485.055 | 7.625 | 632.769 | -473.310 | 1.305.789 |

Performance of the operating segments and decisions about resources to be allocated are made on the basis of EBITDA.

# Notes to the Annual Report, Group

| | | 2017 | 2016 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| 3 | **Segment information** (continued) | | |
| | **Geographic allocation** | | |
| | *Revenue* | | |
| | Denmark | 1.177 | 1.659 |
| | EU | 596.431 | 613.110 |
| | USA/Canada | 1.172.381 | 1.158.301 |
| | APAC | 399.599 | 373.806 |
| | Other | 84.798 | 203.905 |
| | **Total revenue** | **2.254.386** | **2.350.781** |
| | *Non-current assets other than deferred tax assets, by area* | | |
| | Denmark | 421 | 465 |
| | EU | 182.059 | 179.255 |
| | USA/Canada | 685.744 | 847.175 |
| | APAC | 165 | 123 |
| | Other | 117.228 | 136.913 |
| | **Total non-current assets other than deferred tax assets** | **985.617** | **1.163.931** |

## 4 Revenue

| | 2017 | 2016 |
|---|---|---|
| Sale of goods | 2.254.262 | 2.350.781 |
| Other | 124 | 0 |
| | **2.254.386** | **2.350.781** |

## 5 Expenses classified by nature

| | 2017 | 2016 |
|---|---|---|
| Production costs | 1.950.219 | 1.982.185 |
| Distribution costs | 98.701 | 98.831 |
| Cost of goods sold | 2.048.920 | 2.081.016 |
| Sales and marketing expenses | 44.481 | 46.902 |
| Administrative expenses | 123.795 | 145.121 |
| Other income and expenses | -668 | -283 |
| Special items, net | 1.706 | 1.281 |
| | **2.218.234** | **2.274.037** |
| *Classified by nature as follows:* | | |
| Expenses for raw materials and consumables | 1.243.471 | 1.290.851 |
| Other external expenses | 518.240 | 505.410 |
| Staff expenses | 329.830 | 351.796 |
| Depreciation and amortisation | 126.693 | 125.980 |
| | **2.218.234** | **2.274.037** |

# Notes to the Annual Report, Group

| | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |

## 6 Special items, net

Special items, costs:

| | 2017 | 2016 |
|---|---|---|
| Organizational right-sizing costs | 553 | 1.281 |
| Due dilligence | 1.153 | 0 |
| | **1.706** | **1.281** |

Special items, are staff expenses and external third party costs.

## 7 Staff expenses

Staff expenses are included in the Group's cost of goods sold, sales and marketing and administrative expenses as follows:

| | 2017 | 2016 |
|---|---|---|
| Wages and salaries | 253.541 | 272.259 |
| Pensions defined contribution plans | 11.774 | 12.263 |
| Other social security expenses | 64.515 | 67.274 |
| | **329.830** | **351.796** |

**Key management compensation**

*Key management consist of the executive and supervisory board as well as the executive management team.*

| | 2017 | 2016 |
|---|---|---|
| Salaries and other short-term employee benefits | 7.553 | 8.759 |
| | **7.553** | **8.759** |
| Thereof to the executive board | 2.533 | 3.390 |
| Thereof to the supervisory board | 451 | 570 |
| **Average number of full-time employees** | **635** | **637** |

Staff expenses are included in the functions presented on the face of the income statement as follows:

| | 2017 | 2016 |
|---|---|---|
| Cost of goods sold | 252.180 | 266.961 |
| Sales and marketing expenses | 27.322 | 30.463 |
| Administrative expenses | 50.328 | 54.372 |
| | **329.830** | **351.796** |

# Notes to the Annual Report, Group

| | | 2017 | 2016 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |

## 8 Fee to auditors appointed at the general meeting

| | 2017 | 2016 |
|---|---|---|
| Audit fee | 1.763 | 1.989 |
| Tax consultancy | 2.643 | 2.771 |
| Non-audit services | 93 | 342 |
| **Total** | **4.499** | **5.102** |

Fees for services in addition to the statutory audit of the financial statements provided which were provided by the statutory auditor PricewaterhouseCoopers Statsautoriseret Revisions-partnerselskab amounted to TDKK 45. Other services in addition to the statutory audit of the financial statements comprise tax services relating to transfer pricing, as well as other general accounting consultancy services.

| | 2017 | 2016 |
|---|---|---|
| *Fee to other audit firms* | | |
| Audit fee | 92 | 72 |
| Tax consultancy | 139 | 124 |
| Other assurance statements | 15 | 41 |
| Non-audit services | 448 | 489 |
| **Total** | **694** | **726** |

## 9 Depreciation and amortisation

| | 2017 | 2016 |
|---|---|---|
| *Depreciation and amortisation for the year are specified as follows:* | | |
| Customer lists, know-how, patents and licences | 2.015 | 2.376 |
| Software | 10.258 | 10.173 |
| Buildings | 15.202 | 15.399 |
| Plant and machinery | 93.826 | 92.869 |
| Other fixtures and fittings, tools and equipment | 5.392 | 5.196 |
| | **126.693** | **126.013** |

| | 2017 | 2016 |
|---|---|---|
| *Depreciation and amortisation are distributed on the individual cost groups as follows:* | | |
| Cost of goods sold | 112.631 | 111.445 |
| Sales and marketing expenses | 2.420 | 2.900 |
| Administrative expenses | 11.642 | 11.668 |
| | **126.693** | **126.013** |

# Notes to the Annual Report, Group

| | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |

## 10 Other operating income and expenses

| | | |
|---|---|---|
| *Other operating income:* | | |
| Subsidies | 90 | 90 |
| Gains on disposals of non-current assets | 104 | 42 |
| Management fee | 650 | 650 |
| | 844 | 782 |
| *Other operating expenses:* | | |
| Loss on disposals of non-current assets | -176 | -499 |
| | -176 | -499 |
| | **668** | **283** |

## 11 Financial income

| | | |
|---|---|---|
| Interest | 589 | 504 |
| Exchange adjustments | 4.039 | 31.600 |
| Other | 1.492 | 2.737 |
| | **6.120** | **34.841** |

Interest and exchange adjustments relate to loans granted and receivables measured at amortised cost.

## 12 Financial expenses

| | | |
|---|---|---|
| Interest | 39.670 | 41.124 |
| Amortized financing costs | 11.679 | 4.763 |
| Call premium | 20.280 | 0 |
| Exchange adjustments | 41.632 | 4.330 |
| Other | 3.283 | 3.879 |
| | **116.544** | **54.096** |

Interest income and expense relate to loans received and payables measured at amortised cost.

# Notes to the Annual Report, Group

| | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |

## 13 Tax on profit for the year

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|
| Current tax on profit for the year | 17.153 | 15.827 |
| Change in deferred tax | -41.267 | -8.316 |
| Change in tax previous years | -2.730 | 265 |
| | **-26.844** | **7.776** |

Tax on profit for the year is specified as follows:

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|
| Calculated 22% tax on profit for the year before tax | -16.340 | 12.648 |
| Tax effect of: | | |
| Higher/lower tax rate in foreign companies | -12.258 | -3.125 |
| Tax on non-deductible expenses and non-taxable income | 10.719 | -3.584 |
| Adjustment of valuation deferred tax | -6.235 | 1.572 |
| Adjustment of tax previous years | -2.730 | 265 |
| | **-26.844** | **7.776** |
| **Effective tax rate for the year** | **36,14%** | **13,53%** |

## 14 Intangible fixed assets

| | Goodwill | Customer lists, know-how, patents and licences | Software | Intangible fixed assets under construction |
|---|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| **2017** | | | | |
| Cost at 1 January | 93.491 | 16.488 | 69.144 | 0 |
| Exchange adjustment at year-end rate | -7.539 | -1.351 | -5.598 | 0 |
| Additions for the year | 0 | 0 | 2.703 | 497 |
| Transfer between items | 0 | 0 | 0 | 0 |
| Disposals for the year | 0 | 0 | -103 | 0 |
| Cost at 31 December | 85.952 | 15.137 | 66.146 | 497 |
| Amortisation at 1 January | 0 | 5.575 | 35.016 | 0 |
| Exchange adjustment at year-end rate | 0 | -549 | -3.307 | 0 |
| Amortisation for the year | 0 | 2.015 | 10.258 | 0 |
| Disposals for the year | 0 | 0 | -103 | 0 |
| Amortisation at 31 December | 0 | 7.041 | 41.864 | 0 |
| **Carrying amount at 31 December** | **85.952** | **8.096** | **24.282** | **497** |
| **Amortised over** | | **10 years** | **3-5 years** | |

Goodwill can be broken out on the activities Sontara and TWIG with DKK 83,9 mio. and DKK 2,1 mio. respectively.

The Group has performed impairment test of Goodwill per 31 December 2017.

The majority of the TWIG Group was merged into Sontara AG effective January 1, 2017. In consequence, there is no separate management reporting available for this part anymore, that the Group has performed the impairment test on the basis of an overall valuation of Sontara AG. The conclusion was that there was no need for impairment.

The valuation of Sontara was prepared on basis of the approved budget for 2018 and calculated as a value in use with a terminal growth of 0% and a pre-tax WACC of 6.5%.

At year-end Management has assessed that the key assumption used to determine value in use of Sontara is the demand for non-woven including available by-products based on historical data.

It is assumed that reasonable possible changes in key assumptions are not expected to cause a change in the need for impairment.

## 14 Intangible fixed assets (continued)

| | Goodwill | Customer lists, know-how, patents and licences | Software | Intangible fixed assets under construction |
|---|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| **2016** | | | | |
| Cost at 1 January | 93.222 | 15.843 | 67.918 | 0 |
| Exchange adjustment at year-end rate | 269 | 46 | 528 | 0 |
| Additions for the year | 0 | 599 | 130 | 568 |
| Transfer between items | 0 | 0 | 568 | -568 |
| Cost at 31 December | 93.491 | 16.488 | 69.144 | 0 |
| Amortisation at 1 January | 0 | 3.157 | 24.324 | 0 |
| Exchange adjustment at year-end rate | 0 | 42 | 519 | 0 |
| Amortisation for the year | 0 | 2.376 | 10.173 | 0 |
| Amortisation at 31 December | 0 | 5.575 | 35.016 | 0 |
| **Carrying amount at 31 December** | **93.491** | **10.913** | **34.128** | **0** |
| **Amortised over** | | **10 years** | **3-5 years** | |

Goodwill can be broken out on the segments TWIG and Sontara with DKK 93,2 mio. and DKK 0,3 mio. respectively.

The Group has performed impairment test of goodwill per 31 December 2016.

The Group has performed the impairment test on the basis of an overall valuation of the TWIG Group. The conclusion was that there was no need for impairment.

The valuation of the TWIG Group was prepared on basis of the approved budget for 2017 and calculated as a value in use with a terminal growth of 0% and a pre-tax WACC of 6.25%.

At year-end Management has assessed that the key assumption used to determinate value in use of the TWIG Group is the available volume of by-products to this Group and the intercompany purchase price applied. The 2017 budget includes a conservative level of volume. As a result of this, cash-flow used to determine the fair value is at a conservative level which explains why the WACC does not include a risk-premium. Further, the assumption is that the by-products are purchased at market price from group companies.

It is assumed that reasonable possible changes in key assumptions are not expected to cause a change in the need for impairment.

## 15 Property, plant and equipment

| | Land and buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Property, plant and equip-ment under construction |
|---|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| **2017** | | | | |
| Cost at 1 January | 395.506 | 1.370.920 | 53.828 | 20.805 |
| Exchange adjustment at year-end rate | -31.095 | -113.265 | -3.473 | -1.648 |
| Additions for the year | 0 | 4.517 | 1.632 | 43.937 |
| Transfer between items | 635 | 33.474 | 3.618 | -37.727 |
| Disposals for the year | -133 | -453 | -710 | 0 |
| Cost at 31 December | 364.913 | 1.295.193 | 54.895 | 25.367 |
| Depreciation at 1 January | 130.328 | 648.876 | 38.486 | 0 |
| Exchange adjustment at year-end rate | -8.119 | -43.893 | -2.357 | 0 |
| Depreciation for the year | 15.202 | 93.826 | 5.392 | 0 |
| Disposals for the year | -37 | -188 | -496 | 0 |
| Depreciation at 31 December | 137.374 | 698.621 | 41.025 | 0 |
| **Carrying amount at 31 December** | **227.539** | **596.572** | **13.870** | **25.367** |
| **Depreciated over** | **30-50 years** | **5-15 years** | **3-10 years** | |

The carrying amount of buildings at 31 December 2017 includes interest of DKK 6.587k.

The carrying amount of plant and machinery at 31 December 2017 includes interest of DKK 14.030k.

As per 31 December 2017 the Group has performed an impairment test of property, plant and equipment in US related to the segment Jacob Holm Industries's US- activities. The conclusion was that there was no need for impairment.

The impairment test was performed as a value in use calculation discounting the expected cash-flows in the assets remaining useful life. The cash flow projections are based on the budget for 2018 adjusted for full year effect of the expected improvements in 2018 and slightly increasing quantities in 2019.

# Notes to the Annual Report, Group

## 15 Property, plant and equipment
(continued)

| | Land and buildings | Plant and machinery | Other fixtures and fittings, tools and equipment | Property, plant and equip-ment under construction |
|---|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| **2016** | | | | |
| Cost at 1 January | 387.460 | 1.293.828 | 50.736 | 19.188 |
| Exchange adjustment at year-end rate | 7.641 | 27.279 | 754 | 221 |
| Additions for the year | 6 | 12.308 | 1.604 | 41.782 |
| Transfer between items | 765 | 38.701 | 920 | -40.386 |
| Disposals for the year | -366 | -1.196 | -186 | 0 |
| Cost at 31 December | 395.506 | 1.370.920 | 53.828 | 20.805 |
| Depreciation at 1 January | 113.208 | 546.103 | 32.964 | 0 |
| Exchange adjustment at year-end rate | 1.851 | 9.968 | 512 | 0 |
| Depreciation for the year | 15.399 | 92.869 | 5.196 | 0 |
| Disposals for the year | -130 | -64 | -186 | 0 |
| Depreciation at 31 December | 130.328 | 648.876 | 38.486 | 0 |
| **Carrying amount at 31 December** | **265.178** | **722.044** | **15.342** | **20.805** |
| **Depreciated over** | **30-50 years** | **5-15 years** | **3-10 years** | |

The carrying amount of buildings at 31 December 2016 includes interest of DKK 7.796k.

The carrying amount of plant and machinery at 31 December 2016 includes interest of DKK 17.397k.

As per 31 December 2016 the Group has performed an impairment test of property, plant and equipment in US related to the segment Jacob Holm Industries's US-activities. The conclusion was that there was no need for impairment.

The impairment test was performed as a value in use calculation discounting the expected cash-flows in the assets remaining useful life. The cash flow projections are based on the budget for 2017 adjusted for full year effect of the expected improvements in 2017 and slightly increasing quantities in 2018.

# Notes to the Annual Report, Group

| | | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|---|
| 16 | **Inventories** | | |
| | Raw materials and consumables | 50.128 | 37.819 |
| | Finished goods | 114.172 | 139.283 |
| | | **164.300** | **177.102** |
| | Raw materials and consumables expensed for the year | 1.243.471 | 1.290.851 |
| | Inventories expected to be sold after more than 1 year amount to | 0 | 0 |
| | Write-down on inventories for the year amounts to | 6.099 | 5.216 |
| | Reversed write-down on inventories for the year amounts to | 5.971 | 5.685 |

Subsequent sales have shown that there was no need for the write-down.

## 17 Corporation tax

| | 2017 | 2016 |
|---|---|---|
| Corporation tax receivable at 1 January | 267 | 6.282 |
| Exchange adjustment at year-end rate | -30 | 110 |
| Tax on operating profit, see note 13 | -480 | -223 |
| Tax refunded/paid | 1.627 | -5.902 |
| **Corporation tax receivable at 31 December** | **1.384** | **267** |

## 18 Receivables

| | 2017 | 2016 |
|---|---|---|
| Trade receivables | 300.190 | 311.565 |
| Bad debt provision | -1.714 | -1.852 |
| Trade receivables, net | 298.476 | 309.713 |
| Other receivables | 45.880 | 36.146 |
| | **344.356** | **345.859** |

**Bad debt provision**

| | 2017 | 2016 |
|---|---|---|
| Bad debt provision at 1 January | 1.852 | 92 |
| Exchange adjustment at year-end rate | -138 | -1 |
| Additions for the year | 0 | 1.761 |
| *Disposals for the year:* | | |
| - Applied | 0 | 0 |
| - Reversed | 0 | 0 |
| **Bad debt provision at 31 December** | **1.714** | **1.852** |

# Notes to the Annual Report, Group

| | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |

## 19 Share capital

The share capital consists of the following classes of shares:

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|
| A-shares (358,688 shares of DKK 1) | 359 | 359 |
| B-shares (431 shares of DKK 1) | 0 | 0 |
| C-shares (640,881 shares of DKK 1) | 641 | 641 |
| | **1.000** | **1.000** |

A-shares give the right to 10 votes for each share amount of DKK 100, and B-shares give the right to one vote for each share amount of DKK 100, and C-shares give the right to one vote for each share amount of DKK 100.

In the case of a dividend distribution, B-shares are entitled to 6% upfront and A- and C-shares are entitled to the remaining dividend distributed.

Otherwise no shares carry any special rights.

## 20 Bond

On March 31, 2017, the parent company issued a series of new bonds in the amount of EUR 100 million. The net proceeds of the new bonds were used to refinance the bonds issued in 2014 and for general corporate purposes. The redemption of the 2014 bonds including the call premium as well as the release of the remaining proceeds from the escrow to the Group occurred on April 25, 2017.

The interest coupon on the par value of the new bonds payable and including, the issue date is three months EURIBOR plus a margin of 3.75% (subject to adjustment in case of incurrence events).

The Bond matures in full on March 31, 2022. The Company may redeem the bond issue in whole or in part at any time. The redemption price is:

| | |
|---|---|
| Today to September 2019 | 102% of par value plus remaining interest payments until September 2019 discounted at 50 basis point over the comparable government bonds of the Federal Republic of Germany. |
| September 2019 to March 2020 | 102% of par value |
| March 2020 to September 2020 | 101.50% of par value |
| September 2020 to March 2021 | 101.25% of par value |
| March 2021 to September 2021 | 100.75% of par value |
| From September 2021 | 100% of par value |

The bonds are subject to a net debt / EBITDA ratio covenant testing in case of an Incurrence Event. An Event can be either a dividend distribution above the EUR 7 mio. permitted minimum distribution and/or the incurrence of financial indebtedness.

## 21 Deferred tax

| | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|
| Deferred tax at 1 January | 32.375 | 40.181 |
| Exchange adjustment at year-end rate | -654 | 510 |
| Change in deferred tax, see note 13 | -40.622 | -8.316 |
| **Deferred tax at 31 December** | **-8.901** | **32.375** |
| Deferred tax relates to: | | |
| Inventories | -1.080 | -2.509 |
| Other current assets | 1.758 | 2.209 |
| Other liabilities | -2.418 | -5.194 |
| **Current part** | **-1.740** | **-5.494** |
| Intangible assets | -4.541 | -7.750 |
| Property, plant and equipment | 78.920 | 139.662 |
| Other liabilities | -2.535 | -3.343 |
| Tax loss carry-forward | -88.314 | -116.982 |
| Retaxation relating to utilised losses in foreign subsidiary | 9.309 | 26.282 |
| **Non-current part** | **-7.161** | **37.869** |
| **Deferred tax, net** | **-8.901** | **32.375** |
| which breaks down as follows: | | |
| Deferred tax asset | -15.594 | -13.902 |
| Provisions for deferred tax liability | 6.693 | 46.277 |
| | **-8.901** | **32.375** |
| **Unrecognized deferred tax asset** | **26.782** | **20.804** |

The Group's recognised tax loss is subject to varying conditions and is expected fully utilised for set-off against positive taxable income within a 5 year period.

Two of the entities to which the tax loss carry-forward relates to were not profitable in 2017. Management has assessed that there is some uncertainty as to the timing of utilizing the tax loss carry-forward, that it has derecognised the part of the tax loss carry-forward which relates to the period after 5 years. The assessment is based on budgets for 2018.

# Notes to the Annual Report, Group

## 22 Other staff obligations

The Group offers part of the employees to participate in pension schemes in the form of defined contribution plans.

The provision for other staff obligations primarily includes seniority based bonuses for employees calculated by an actuary taking into account the expected turnover among employees, wage increases etc. A discount factor of 1,30% has been used against 1,31% in 2016.

As the obligation is uncertain as regards the time of settlement, no breakdown of time of maturity can be made. The entire obligation has therefore been classified as a non-current liability.

| | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|
| Balance at 1 January | 6.512 | 6.005 |
| Exchange adjustment at year-end rate | -1 | -22 |
| Additions for the year | 430 | 557 |
| Disposals for the year | -214 | -549 |
| Discount effect | 7 | 521 |
| **Balance at 31 December** | **6.734** | **6.512** |

## 23 Provisions for other liabilities and charges

The liability relates to an estimated liability regarding dismantling of assets held on leased land.

| | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|
| Balance at 1 January | 7.050 | 6.830 |
| Exchange adjustment at year-end rate | -840 | 220 |
| Additions for the year | 0 | 0 |
| **Balance at 31 December** | **6.210** | **7.050** |

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|

## 24 Credit institutions

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|
| Payment due later than 5 years | 0 | 0 |
| Payment due 1-5 years | 85.765 | 236.442 |
| **Non-current credit institutions** | **85.765** | **236.442** |
| Payment due within 1 year | 176.531 | 176.296 |
| | **262.296** | **412.738** |

Credit institutions primarily includes term loans granted to the Plant in Asheville, NC with a total of DKK 120m of which DKK 85m is due between 1-5 years. These term loans are USD denominated and with variable interest.

The covenants comprise measurements on specific financial ratios, including solvency, EBITDA in relation to fixed charges (interest, instalments, income tax, dividend and capital expenditure) and the cover of revolving credit by working capital.

## 25 Corporation tax

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|
| Accrued corporation tax at 1 January | 18.921 | 12.082 |
| Exchange adjustment at year-end rate | -1.185 | 111 |
| Tax on operating profit, see note 13 | 11.107 | 15.604 |
| Adjustment of tax previous years | 0 | 265 |
| Tax paid | -18.251 | -9.141 |
| **Accrued corporation tax at 31 December** | **10.592** | **18.921** |

## 26 Cash flow statement - adjustments non-cash items

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|
| Financial income | -6.120 | -34.841 |
| Financial expenses | 116.544 | 54.096 |
| Depreciation, amortisation and impairment losses, including losses and gains on disposals of intangible fixed assets and property, plant and equipment | 126.765 | 126.470 |
| Tax on profit for the year | -26.844 | 7.776 |
| | **210.345** | **153.501** |

| | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |

## 27 Cash flow statement - change in working capital

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|
| Change in inventories | -329 | 32.695 |
| Change in receivables | -27.424 | 6.487 |
| Change in other provisions | 224 | 529 |
| Change in payables | -10.197 | 58.495 |
| | **-37.726** | **98.206** |

## 28 Changes in liabilities arising from financing activities

| | January 1 | Cash flows | Non-cash changes | December 31 |
|---|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 | DKK '000 |
| Bond | 496.993 | 226.430 | 11.079 | 734.502 |
| Credit institutions | 297.797 | -149.458 | -25.293 | 123.046 |
| Payables to related companies | 7.362 | -4.275 | 1 | 3.088 |
| | **802.152** | **72.697** | **-14.213** | **860.636** |

## 29 Contingent liabilities and other financial obligations

**Mortgages**

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|
| As security for credit institution, mortgage deeds registered to the mortgagor have been issued totalling | 541.742 | 615.021 |

The mortgage deeds registered to the mortgagor are secured on land and buildings as well as the related plant and machinery at a carrying amount of DKK 592.806k (at 31 December 2016: DKK 732.278k).

| | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|
| As security for credit institution, a mortgage on movable property has been issued totalling | 4.464 | 4.458 |

The mortgage deed on movable property is secured on intangible fixed assets and property plant and machinery at a carrying amount of DKK 77.343k (at 31 December 2016: DKK 83.337k).

As security for credit institutions, security has moreover been provided in current assets at a carrying amount of DKK 156.366k (at 31 December 2016 DKK 159.428k).

# Notes to the Annual Report, Group

## 29 Contingent liabilities and other financial obligations (continued)

**Obligations under operating leases**

Obligations under operating leases primarily comprise agreements entered into concerning the lease of operational equipment. The leases run until December 2019 at the latest.

Obligations under operating leases break down as follows according to due date:

| Minimum payments | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |
| 0-1 year | 932 | 800 |
| 1-5 years | 111 | 223 |
| >5 years | 0 | 0 |
| | **1.043** | **1.023** |

Lease expenses recognised amount to TDKK 888 (2016: TDKK 816)

**Obligations under rental agreements**

Obligations under rental agreements primarily comprise agreements entered into concerning the renting of warehouse and office space. The rentals run until February 2028 at the latest.

Obligations under rental agreements break down as follows according to due date:

| Minimum payments | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |
| 0-1 year | 15.152 | 15.299 |
| 1-5 years | 50.442 | 4.005 |
| >5 years | 21.231 | 0 |
| | **86.825** | **19.304** |

Rental expenses recognised amount to TDKK 16.553 (2016: TDKK 15.372)

**Contractual obligations**

| | | |
|---|---|---|
| The Group has entered into agreements on delivery of property, plant and equipment with a remaining obligation of | 7.295 | 3.416 |

# Notes to the Annual Report, Group

## 30 Financial risks

### Credit risk

Credit risk arises from cash and cash equivalents, bond investments as well as credit exposure to customers and other outstanding receivables.

Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted.

If wholesale customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by Management. The compliance with credit limits by wholesale customers is regularly monitored by line management.

Current follow-up is made on outstanding accounts in accordance with the Group's trade receivables procedures. Where uncertainty arises as to a customer's ability or willingness to pay, and it is estimated that the trade receivable is subject to risk, a bad debt provision is made.

*Credit quality*

The Group has a factoring agreement in place for one of the plants, which does not qualify for derecognition. The total amount included under the factoring agreement amounts to DKK 59 m (2016: DKK 77m), of which an amount of approx. DKK 54m (2016: DKK 52m) is covered by credit insurance. The associated liability amounts to DKK 59m (2016: DKK 61m).

Other trade receivales are not covered by credit insurance

Generally the Group's trade receivables is concentrated on a smaller number of customers of which several are highly rated large multinational customers which supports the low bad debt provision.

The overdue balance on trade receivables is specified as follows at 31 December 2017:

| DKK '000 | 0-15 days | 16-30 days | 31-45 days | > 45 days | Total |
|---|---|---|---|---|---|
| Overdue receivables not subject to impairment | 26.136 | 2.502 | 1.339 | 2.292 | 32.269 |
| Overdue receivables subject to impairment | 0 | 0 | 0 | 1.714 | 1.714 |
| | 26.136 | 2.502 | 1.339 | 4.006 | 33.983 |
| Bad debt provision | 0 | 0 | 0 | -1.714 | -1.714 |
| | 26.136 | 2.502 | 1.339 | 2.292 | 32.269 |

# Notes to the Annual Report, Group

## 30 Financial risks (continued)

The overdue balance on trade receivables is specified as follows at 31 December 2016:

| DKK '000 | 0-15 days | 16-30 days | 31-45 days | > 45 days | Total |
|---|---|---|---|---|---|
| Overdue receivables not subject to impairment | 18.178 | 1.349 | 1.937 | 2.947 | 24.411 |
| Overdue receivables subject to impairment | 0 | 0 | 0 | 1.852 | 1.852 |
| | 18.178 | 1.349 | 1.937 | 4.799 | 26.263 |
| Bad debt provision | 0 | 0 | 0 | -1.852 | -1.852 |
| | 18.178 | 1.349 | 1.937 | 2.947 | 24.411 |

**Liquidity risk**

The Group ensures sufficient cash resources by entering into framework agreements for current overdraft facilities. Existing agreements with agreed upon repayment terms cannot be terminated by the banks unless there is a breach of the covenants stated in the loan agreements.

In the event of breach of a covenant the Group has the right to remedy without undue delay, respectively the bank is entitled to terminate part or all of the outstanding loan facilities, should the Group not be able to do so.

There were no covenant breaches during 2017.

Some of the Group's credit facilities are variable due to the fact that some of the Group's credit lines are based on the amount of the Group's trade receivables and inventory.

The analysis of due dates is stated on the basis of category and class broken down on due date. The calculation of interest payments on floating-rate obligations is based on the interest rate on the balance sheet date.

The cash need is expected covered by the current liquidity surplus from operations, bonds at fair value, unutilised credits as well as via refinancing or new non-current loans.

# Notes to the Annual Report, Group

## 30 Financial risks (continued)

**2017**

DKK '000

| | < 1 year | 1-5 years | >5 years | Total | Repayment not finally agreed | Carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Measured at amortised cost: | | | | | | | |
| Bond | 27.918 | 825.218 | 0 | 853.136 | 0 | 734.502 | 753.424 |
| Credit institutions | 180.552 | 87.476 | 0 | 268.028 | 0 | 262.296 | 262.296 |
| Payables to related companies | 3.088 | 0 | 0 | 3.088 | 0 | 3.088 | 3.088 |
| Trade payables | 171.678 | 0 | 0 | 171.678 | 0 | 171.678 | 171.678 |
| Other short-term liabilities | 110.403 | 0 | 0 | 110.403 | 0 | 110.403 | 110.403 |
| **Financial liabilities** | **493.639** | **912.694** | **0** | **1.406.333** | **0** | **1.281.967** | **1.300.889** |
| Trade receivables | 300.190 | 0 | 0 | 300.190 | 0 | 300.190 | 298.476 |
| Other receivables | 47.264 | 3.443 | 0 | 50.707 | 0 | 50.707 | 50.707 |
| Cash at bank and in hand | 130.456 | 0 | 0 | 130.456 | 0 | 130.456 | 130.456 |
| **Financial assets** | **477.910** | **3.443** | **0** | **481.353** | **0** | **481.353** | **479.639** |
| **Net cash outflow** | **-15.729** | **-909.251** | **0** | **-924.980** | **0** | **-800.614** | **-821.250** |
| **Bonds at fair value through profit and loss** | **8.479** | **0** | **0** | **8.479** | **0** | **8.479** | **8.479** |
| Unutilised credits | | | | | | 46.297 | 46.297 |

Fair value of bond investments is based on quoted prices (level 1). Fair value of the issued bond is based on the latest market price published by Oslo Børs. Fair value of floating rate loans from credit institutions is based on an assessment of the current margin on such loan arrangements (level 2). Fair value of cash and cash equivalents and short term receivables and payables is determined to equal the nominal amount.

**2016**

DKK '000

| | < 1 year | 1-5 years | >5 years | Total | Repayment not finally agreed | Carrying amount | Fair value |
|---|---|---|---|---|---|---|---|
| Measured at amortised cost: | | | | | | | |
| Bond | 26.549 | 530.452 | 0 | 557.001 | 0 | 496.993 | 514.550 |
| Credit institutions | 185.258 | 246.709 | 0 | 431.967 | 0 | 412.738 | 412.738 |
| Payables to related companies | 7.362 | 0 | 0 | 7.362 | 0 | 7.362 | 7.362 |
| Trade payables | 188.785 | 0 | 0 | 188.785 | 0 | 188.785 | 188.785 |
| Other short-term liabilities | 139.535 | 0 | 0 | 139.535 | 0 | 139.535 | 139.535 |
| **Financial liabilities** | **547.489** | **777.161** | **0** | **1.324.650** | **0** | **1.245.413** | **1.262.970** |
| Trade receivables | 311.565 | 0 | 0 | 311.565 | 0 | 311.565 | 309.713 |
| Other receivables | 36.413 | 2.030 | 0 | 38.443 | 0 | 38.443 | 38.443 |
| Cash at bank and in hand | 83.397 | 0 | 0 | 83.397 | 0 | 83.397 | 83.397 |
| **Financial assets** | **431.375** | **2.030** | **0** | **433.405** | **0** | **433.405** | **431.553** |
| **Net cash outflow** | **-116.114** | **-775.131** | **0** | **-891.245** | **0** | **-812.008** | **-831.417** |
| **Bonds at fair value through profit and loss** | **9.515** | **0** | **0** | **9.515** | **0** | **9.515** | **9.515** |
| Unutilised credits | | | | | | 60.483 | 60.483 |

# Notes to the Annual Report, Group

## 30 Financial risks (continued)

### Market risk

The Group's credits and bonds are floating-rate credits and bonds, which exposes the Group to fluctuations in interest rates. It is Group policy that all financing of working capital and investments in non-current assets take place at floating interest rate.

No derivative financial instruments are used to hedge interest rate risk.

Based on interest-bearing debt at the balance sheet date, an increase in the EUR market rate by 1% would decrease the profit for the year before tax of DKK 8.440k (2016: DKK 660k) and a similar effect on equity and an increase in all other market rates by 1% would decrease the profit for the year before tax of DKK 1.628k (2016: DKK 9.184k) and a similar effect on equity.

The Group's currencies used for payment are mostly distributed between EUR and USD. No financial instruments are used to hedge positions in foreign currency.

### Exposure at 31 December 2017

The below balances represents the net Group exposure for each individual currency. Accordingly, where an entity reports in the stated currency, it has been excluded in the balance shown.

| | Payment/ expiry | Receivables | Payables | Bond, bank and credit-institutions | Net position |
|---|---|---|---|---|---|
| USD | < 1 year | 339.928 | -120.595 | 83.696 | 303.029 |
| USD | > 1 year | 0 | -26.316 | 0 | -26.316 |
| EUR | < 1 year | 46.968 | -42.958 | 16.495 | 20.505 |
| EUR | > 1 year | 0 | 0 | -744.490 | -744.490 |
| CHF | < 1 year | 85.331 | -71 | 9 | 85.269 |
| JPY | < 1 year | 5.731 | 0 | 4.805 | 10.536 |
| Other | < 1 year | 0 | -529 | 2.662 | 2.133 |
| | | 477.958 | -190.469 | -636.823 | -349.334 |

# Notes to the Annual Report, Group

## 30 Financial risks (continued)

### Exposure at 31 December 2016

DKK '000

| Currency | Payment/ expiry | Receivables | Payables | Bond, bank and credit-institutions | Net position |
|---|---|---|---|---|---|
| USD | < 1 year | 376.513 | -141.688 | 32.307 | 267.132 |
| USD | > 1 year | 85 | -23.090 | 0 | -23.005 |
| EUR | < 1 year | 48.806 | -57.766 | 6.012 | -2.948 |
| CHF | < 1 year | 65.005 | -7.989 | 17 | 57.033 |
| SEK | < 1 year | 0 | -6.567 | 7.405 | 838 |
| SEK | > 1 year | 0 | 0 | -505.700 | -505.700 |
| Other | < 1 year | 1.849 | -344 | 714 | 2.219 |
| | | 492.258 | -237.444 | -459.245 | -204.431 |

Due to the fixed rate policy conducted by the Danish National Bank in respect of the EUR, it is assessed that foreign currency positions in EUR do not entail a risk of material impact due to changes in the EUR rate.

As the individual group companies primarily operate in their individual functional currencies, the Group's profit is primarily sensitive to changes in exchange rates related to intercompany accounts and receivables/ payables denominated in other currencies than the functional currency.

The two currencies to which profit/loss of the Group is most sensitive is USD and CHF.

A 10% increase in USD compared to the exchange rate at 31 December 2017 towards all other currencies will entail a positive change of profit for the year before tax of DKK 27.671k (2016: positive change of DKK 24.413k) and a similar effect on equity.

A 10% increase in CHF compared to the exchange rate at 31 December 2017 towards all other currencies will entail a positive change of profit for the year before tax of DKK 8.527k (2016: positive change of DKK 5.703k) and a similar effect on equity.

A 10% increase in SEK compared to the exchange rate at 31 December 2017 towards all other currencies will entail a positive change of profit for the year before tax of DKK 104k (2016: negative change of DKK 50.486k) and a similar effect on equity. The reduction is due to the SEK Bond being repaid in 2017.

### Capital management

The objective of the Group's capital management is to ensure the Group's ability to continue as a going concern in order to yield return on investment to the shareholders and to create and maintain an optimal capital structure in order to reduce the costs of capital and maintain a basis of continued growth in the Group.

The Group's capital management is also partly governed by loan agreements which include requirements to financial ratios. These financial ratios are affected by the size of the capital, that a reduction will reduce the ratios.

Total capital makes up the equity shown in the consolidated balance sheet.

# Notes to the Annual Report, Group

## 31 Related parties

| Controlling interest | Basis |
|---|---|
| Poul M. Mikkelsen, Büelweg 9, CH-6442 Gersau | Controlling shareholder |
| Ammon Ammon AG, Meierhofstrasse 5, FL-9490 Vaduz | Ultimate parent company |
| PMM Holding (Luxembourg) AG, 5, rue Guillaume Kroll, L-1882 Luxembourg | Parent company |
| Jacob Holm & Sons AG, Picassoplatz 8, CH-4052 Basel | Parent company |
| **Other related parties** | |
| PMM Holding AG, Büelweg 9, CH-6442 Gersau | Sister company |
| Dønnerup A/S, c/o Accura Advokatpartnerselskab, Tuborg Boulevard 1, DK-2900 Hellerup | Sister company |

**Transactions**

| | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|
| Parent: | | |
| The Group has during the year received a management fee of | 5.538 | 11.600 |
| The Group has during the year paid a management fee of | 30.272 | 40.681 |
| The Group has during the year paid a royalty fee of | 37.555 | 26.154 |
| The Group has during the year paid a guarantee fee of | 3.014 | 3.188 |
| The Group has during the year paid dividends of | 25.000 | 20.000 |

The guarantee fee relates to the Parent company's guarantee regarding the issued Bond. The Parent company is guaranteeing an amount of up to EUR 100m (2016: SEK 650m).

| | 2017 | 2016 |
|---|---|---|
| Other related parties: | | |
| The company has during the year received a management fee of | 650 | 650 |
| The company has during the year paid rental charges of | 677 | 677 |

Compensation to key management is disclosed in note 7.

# Notes to the Annual Report, Group

## 31 Related parties (continued)

**Payables to related parties**

| | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|
| Jacob Holm & Sons AG | 3.088 | 7.362 |
| | **3.088** | **7.362** |

## 32 Development costs

Development costs for the year recognised in the income statement under production costs amount to DKK 10.959k in 2017 against DKK 9.716k in 2016.

## 33 Post balance sheet events

There have been no material events after the balance sheet date.

## 34 Dividends per share

A dividend in respect of the year ended 31 December 2017 of DKK 25 per share, amounting to a total dividend of DKK 25 million, is to be proposed at the annual general meeting on 24 April 2018.

# Parent Company Income Statement 1 January - 31 December

| | Note | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|---|
| **Revenue** | 1 | **2.814** | **3.461** |
| Administrative expenses | | -4.336 | -4.456 |
| **Profit before financial income and expenses and special items** | | **-1.522** | **-995** |
| Financial income | 4 | 85.190 | 82.322 |
| Financial expenses | 5 | -88.549 | -34.873 |
| **Profit before tax** | | **-4.881** | **46.454** |
| Tax on profit for the year | 6 | 2.218 | -2.622 |
| **Net profit for the year** | | **-2.663** | **43.832** |

# Parent company Statement of Comprehensive Income 1 January - 31 December

| | | |
|---|---|---|
| Net profit for the year | -2.663 | 43.832 |
| **Comprehensive income** | **-2.663** | **43.832** |

# Parent Company Balance Sheet at 31 December

## Assets

| | Note | 2017 DKK '000 | 2016 DKK '000 |
|---|---|---|---|
| Other fixtures and fittings, tools and equipment | 7 | 98 | 142 |
| **Property, plant and equipment** | | **98** | **142** |
| Investments in subsidiaries | 8 | 416.574 | 416.574 |
| Receivables from group companies | | 489.425 | 293.271 |
| Deferred tax asset | 9 | 300 | 0 |
| **Financial fixed assets** | | **906.299** | **709.845** |
| **Non-current assets** | | **906.397** | **709.987** |
| Corporation tax | 10 | 790 | 0 |
| Bonds at fair value through profit and loss | | 8.479 | 9.515 |
| Other receivables | | 445 | 1.179 |
| Prepayments | | 37 | 259 |
| **Receivables** | | **9.751** | **10.953** |
| **Cash at bank and in hand** | | **11.079** | **16.126** |
| **Current assets** | | **20.830** | **27.079** |
| **Assets** | | **927.227** | **737.066** |

# Parent Company Balance Sheet at 31 December

## Equity and liabilities

| | Note | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|---|
| Share capital | 11 | 1.000 | 1.000 |
| Retained earnings | | 190.945 | 218.608 |
| **Equity** | | **191.945** | **219.608** |
| Bond | | 734.502 | 496.993 |
| Provisions for deferred tax | 12 | 0 | 1.918 |
| **Non-current liabilities** | | **734.502** | **498.911** |
| Payables to related companies | | 70 | 7.989 |
| Corporation tax | 13 | 0 | 2.972 |
| Other payables | | 710 | 7.586 |
| **Current liabilities** | | **780** | **18.547** |
| **Liabilities** | | **735.282** | **517.458** |
| **Equity and liabilities** | | **927.227** | **737.066** |

| | |
|---|---|
| Contingent liabilities | 16 |
| Financial risks | 17 |
| Related parties | 18 |
| Fee to auditors appointed at the annual general meeting | 19 |
| Dividends per share | 20 |

# Statement of Changes in Equity, Parent Company
# 1 January - 31 December

| | Share capital | Retained earnings | Total |
|---|---|---|---|
| | DKK '000 | DKK '000 | DKK '000 |
| **Equity** | | | |
| Equity at 1 January 2017 | 1.000 | 218.608 | 219.608 |
| Comprehensive income for the year | 0 | -2.663 | -2.663 |
| Dividends | 0 | -25.000 | -25.000 |
| **Equity at 31 December 2017** | **1.000** | **190.945** | **191.945** |
| Equity at 1 January 2016 | 1.000 | 194.776 | 195.776 |
| Comprehensive income for the year | 0 | 43.832 | 43.832 |
| Dividends | 0 | -20.000 | -20.000 |
| **Equity at 31 December 2016** | **1.000** | **218.608** | **219.608** |

Paid dividends per share in 2017 amounts to DKK 25 (DKK 20 in 2016).

Only the share capital is restricted. Other reserves may be distributed.

# Parent Company Cash Flow Statement

| | Note | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|---|
| Net profit for the year | | -2.663 | 43.832 |
| Adjustments of non-cash items | 14 | 1.185 | -44.794 |
| Change in working capital | 15 | -5.920 | 5.221 |
| Cash flows from operating activities before financial income and expenses and special items | | -7.398 | 4.259 |
| Financial income | | 26.795 | 25.622 |
| Financial expenses | | -77.470 | -31.008 |
| Corporation tax paid | | -3.762 | 910 |
| **Cash flows from operating activities** | | **-61.835** | **-217** |
| Purchase of property, plant and equipment | | 0 | -175 |
| Sale of bonds at fair value through profit and loss | | 1.036 | 3.662 |
| Dividend received | | 58.395 | 34.600 |
| **Cash flows from investing activities** | | **59.431** | **38.087** |
| Change in accounts with group companies | | -196.154 | -10.301 |
| Change in accounts with related companies | | -7.919 | 7.239 |
| Raising of non-current loans | | 732.249 | 0 |
| Repayment of non-current loans | | -505.819 | 0 |
| Dividend paid | | -25.000 | -20.000 |
| **Cash flows from financing activities** | | **-2.643** | **-23.062** |
| **Change in cash and cash equivalents** | | **-5.047** | **14.808** |
| Cash and cash equivalents at 1 January | | 16.126 | 1.318 |
| **Cash and cash equivalents at 31 December** | | **11.079** | **16.126** |
| specified as follows: | | | |
| Cash at bank and in hand | | 11.079 | 16.126 |
| Credit institutions (current liabilities) | | 0 | 0 |
| | | **11.079** | **16.126** |

# Notes to the Annual Report, Parent Company

| | | 2017 | 2016 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| 1 | **Revenue** | | |
| | Management fee | 2.814 | 3.461 |
| | | **2.814** | **3.461** |
| 2 | **Expenses classified by type** | | |
| | Administrative expenses | 4.336 | 4.456 |
| | | **4.336** | **4.456** |
| | *Classified by type as follows:* | | |
| | Other external expenses | 1.703 | 1.860 |
| | Staff expenses | 2.633 | 2.596 |
| | | **4.336** | **4.456** |
| 3 | **Staff expenses** | | |
| | Wages and salaries | 2.606 | 2.570 |
| | Pensions | 5 | 3 |
| | Other social security expenses | 22 | 23 |
| | | **2.633** | **2.596** |

**Key management compensation**

*Key management consist of the executive and supervisory board as well as the executive management team.*

| | 2017 | 2016 |
|---|---|---|
| Salaries and other short-term employee benefits | 539 | 646 |
| | **539** | **646** |
| Thereof to the executive board | 30 | 32 |
| Thereof to the supervisory board | 451 | 570 |
| **Average number of full-time employees** | **3** | **3** |
| *Staff expenses are distributed on the individual cost groups as follows:* | | |
| Administrative expenses | 2.633 | 2.596 |
| | **2.633** | **2.596** |

# Notes to the Annual Report, Parent Company

| | | 2017 | 2016 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |
| **4** | **Financial income** | | |
| | Interest | 343 | 437 |
| | Exchange adjustments | 0 | 25.617 |
| | Interest intercompany accounts | 24.970 | 18.960 |
| | Dividend from subsidiaries | 58.395 | 34.600 |
| | Other financial income | 1.482 | 2.708 |
| | | **85.190** | **82.322** |
| **5** | **Financial expenses** | | |
| | Commission on guarantees | 3.014 | 3.178 |
| | Interest | 29.669 | 27.325 |
| | Amortized financing costs | 10.589 | 3.866 |
| | Call premium | 20.280 | 0 |
| | Exchange adjustments | 24.896 | 0 |
| | Other financial expenses | 101 | 504 |
| | | **88.549** | **34.873** |

Interest relates to loans received and payables measured at amortised cost.

| | | 2017 | 2016 |
|---|---|---|---|
| **6** | **Tax on profit for the year** | | |
| | Current tax on profit for the year | 0 | 3.470 |
| | Change in deferred tax | -2.218 | -848 |
| | Adjustment tax previous years | 0 | 0 |
| | | **-2.218** | **2.622** |
| | Tax on profit for the year is specified as follows: | | |
| | Calculated 22,0% tax on profit for the year before tax | -1.074 | 10.220 |
| | Tax effect of: | | |
| | Non-taxable income and expenses | -1.144 | -7.598 |
| | | **-2.218** | **2.622** |
| | **Effective tax rate for the year** | **45,44%** | **5,64%** |

7 **Property, plant and equipment**

| | Other fixtures and fittings, tools and equipment |
|---|---|
| | DKK '000 |
| **2017** | |
| Cost at 1 January | 175 |
| Additions for the year | 0 |
| Disposals for the year | 0 |
| Cost at 31 December | 175 |
| Depreciation at 1 January | 33 |
| Depreciation for the year | 44 |
| Disposals for the year | 0 |
| Depreciation at 31 December | 77 |
| **Carrying amount at 31 December** | **98** |
| **Depreciated over** | **3-10 years** |

Depreciation for the year is charged to Administrative expenses in the Income Statement.

| | |
|---|---|
| **2016** | |
| Cost at 1 January | 0 |
| Additions for the year | 175 |
| Disposals for the year | 0 |
| Cost at 31 December | 175 |
| Depreciation at 1 January | 0 |
| Depreciation for the year | 33 |
| Disposals for the year | 0 |
| Depreciation at 31 December | 33 |
| **Carrying amount at 31 December** | **142** |
| **Depreciated over** | **3-10 years** |

Depreciation for the year is charged to Administrative expenses in the Income Statement.

## 8 Investments in subsidiaries

| | Share capital | Currency | Ownership % | Carrying amount | Equity | Result |
|---|---|---|---|---|---|---|
| | '000 | | | DKK '000 | DKK '000 | DKK '000 |
| Jacob Holm & Sønner A/S, Denmark | 32.512 | DKK | 100% | 193.330 | 443.139 | -139.963 |
| Sontara AG, Switzerland | 100 | CHF | 100% | 155.925 | 225.011 | 59.480 |
| Sontara Asturias S.A.U, Spain | 1.000 | EUR | 100% | 26.052 | 31.129 | 1.975 |
| Jacob Holm Mexico SA De CV, Mexico | 1.500 | MXN | 99% | 619 | 2.769 | 375 |
| Sontara Japan GK, Japan | 10.000 | JPY | 100% | 1.119 | 4.586 | -147 |
| Sontara South Asia Sdn Bhd, Malaysia | 0 | MYR | 100% | 0 | 143 | 26 |
| Sontara Old Hickory Inc, USA | 0 | USD | 100% | 29.160 | 45.183 | 3.596 |
| Sontara America Inc, USA | 0 | USD | 100% | 2.898 | 11.992 | 7.250 |
| Sontara Argentina S.R.L., Argentina | 8.393 | ARS | 100% | 6.420 | 1.605 | -426 |
| Sontara Nonwovens (Shanghai) Co., Ltd., China | 1.000 | CNY | 100% | 1.050 | 3.974 | 1.693 |
| TWIG America Inc., USA | 0 | USD | 100% | 1 | 1.338 | 990 |
| Sontara Hong Kong Limited | 0 | HKD | 100% | 0 | 34 | 35 |
| | | | | **416.574** | **770.903** | **-65.116** |

| | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |
| Cost at 1 January | 416.574 | 416.574 |
| Additions for the year | 0 | 0 |
| Cost at 31 December | 416.574 | 416.574 |

## 9 Deferred tax asset

| | | |
|---|---|---|
| Deferred tax at 1 January | 0 | 0 |
| Change in deferred tax, see note 6 | 300 | 0 |
| Deferred tax at 31 December | 300 | 0 |
| *Deferred tax relates to:* | | |
| Other current assets | -2.197 | 0 |
| **Non-current portion** | **-2.197** | **0** |
| Property, plant and equipment | 7 | 0 |
| Tax loss carry-forward | 2.490 | 0 |
| **Non-current part** | **2.497** | **0** |
| **Deferred tax, net** | **300** | **0** |

| | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|

## 10 Corporation tax

| | 2017 | 2016 |
|---|---|---|
| Corporation tax receivable at 1 January | 0 | 3.162 |
| Tax on operating profit, see note 6 | 0 | 0 |
| Tax refunded/paid | 790 | -3.162 |
| **Corporation tax receivable at 31 December** | **790** | **0** |

## 11 Share capital

The share capital consists of the following share classes:

| | 2017 | 2016 |
|---|---|---|
| A-shares (358.688 shares of DKK 1) | 359 | 359 |
| B-shares (431 shares of DKK 1) | 0 | 0 |
| C-shares (640.881 shares of DKK 1) | 641 | 641 |
| | **1.000** | **1.000** |

A-shares give the right to 10 votes for each share amount of DKK 100, and B-shares give the right to one vote for each share amount of DKK 100, and C-shares give the right to one vote for each share amount of DKK 100.

In the case of a dividend distribution, B-shares are entitled to 6% upfront and A- and C-shares are entitled to the remaining dividend distributed.

Otherwise no shares carry any special rights.

## 12 Provisions for deferred tax

| | 2017 | 2016 |
|---|---|---|
| Deferred tax at 1 January | 1.918 | 2.766 |
| Change in deferred tax, see note 6 | -1.918 | -848 |
| Deferred tax at 31 December | 0 | 1.918 |
| *Deferred tax relates to:* | | |
| Other current assets | 0 | 1.918 |
| **Current part** | **0** | **1.918** |

## 13 Corporation tax

| | 2017 | 2016 |
|---|---|---|
| Accrued corporation tax at 1 January | 2.972 | 1.754 |
| Tax on operating profit, see note 6 | 0 | 3.470 |
| Tax paid | -2.972 | -2.252 |
| **Accrued corporation tax at 31 December** | **0** | **2.972** |

# Notes to the Annual Report, Parent Company

| | | 2017 | 2016 |
|---|---|---|---|
| | | DKK '000 | DKK '000 |

## 14 Cash flow statement - adjustments of non-cash items

| | 2017 | 2016 |
|---|---|---|
| Financial income | -85.190 | -82.322 |
| Financial expenses | 88.549 | 34.873 |
| Depreciation | 44 | 33 |
| Tax on profit for the year | -2.218 | 2.622 |
| | **1.185** | **-44.794** |

## 15 Cash flow statement - change in working capital

| | 2017 | 2016 |
|---|---|---|
| Change in receivables | 956 | -412 |
| Change in payables | -6.876 | 5.633 |
| | **-5.920** | **5.221** |

| | 2017 | 2016 |
|---|---|---|
| | DKK '000 | DKK '000 |

## 16 Contingent liabilities

| | 2017 | 2016 |
|---|---|---|
| As security for the Bond issued by the Company, intercompany loan agreements have been assigned to the Bondholders of | 210.646 | 204.306 |
| As security for the Bond issued by the Company, all shares in direct and indirect subsidiaries have been pledged. | | |
| As security for credit institution, the Company has provided surety with a maximum amount of | 49.680 | 56.400 |

## 17 Financial risks

**Credit risk**

For a description of the credit risk, please see note 29 to the Annual Report of the Group.

**Liquidity risk**

For a description of the liquidity risk, please see note 29 to the Annual Report of the Group.

The analysis of due dates is stated on the basis of category and class broken down on due date. The calculation of interest payments on floating-rate obligations is based on the interest rate on the balance sheet date.

**2017**

DKK '000

| | < 1 year | 1-5 years | Total | Repayment not finally agreed | Carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Measured at amortised cost: | | | | | | |
| Bond | 27.918 | 825.218 | 853.136 | 0 | 734.502 | 753.424 |
| Payables to related companie | 70 | 0 | 70 | 0 | 70 | 70 |
| Other short-term liabilities | 710 | 0 | 710 | 0 | 710 | 710 |
| **Financial liabilities** | **28.698** | **825.218** | **853.916** | **0** | **735.282** | **754.204** |
| Receivables from group companies | 489.425 | 0 | 489.425 | 0 | 489.425 | 489.425 |
| Other receivables | 1.235 | 0 | 1.235 | 0 | 1.235 | 1.235 |
| Cash at bank and in hand | 11.079 | 0 | 11.079 | 0 | 11.079 | 11.079 |
| **Financial assets** | **501.739** | **0** | **501.739** | **0** | **501.739** | **501.739** |
| **Net cash outflow** | **473.041** | **-825.218** | **-352.177** | **0** | **-233.543** | **-252.465** |
| **Bonds at fair value through profit and loss** | **8.479** | **0** | **8.479** | | **8.479** | **8.479** |

Fair value of the issued bond is based on the latest market price published by Oslo Børs.

# Notes to the Annual Report, Parent Company

## 17 Financial risks (continued)

**2016**

DKK '000

| | < 1 year | 1-5 years | Total | Repayment not finally agreed | Carrying amount | Fair value |
|---|---|---|---|---|---|---|
| Measured at amortised cost | | | | | | |
| Bond | 26.549 | 530.452 | 557.001 | 0 | 496.993 | 514.550 |
| Credit institutions | 0 | 0 | 0 | 0 | 0 | 0 |
| Payables to related companie | 7.989 | 0 | 7.989 | 0 | 7.989 | 7.989 |
| Other short-term liabilities | 10.558 | 0 | 10.558 | 0 | 10.558 | 10.558 |
| **Financial liabilities** | **45.096** | **530.452** | **575.548** | **0** | **515.540** | **533.097** |
| Receivables from group companies | 293.271 | 0 | 293.271 | 0 | 293.271 | 293.271 |
| Other receivables | 1.179 | 0 | 1.179 | 0 | 1.179 | 1.179 |
| Cash at bank and in hand | 16.126 | 0 | 16.126 | 0 | 16.126 | 16.126 |
| **Financial assets** | **310.576** | **0** | **310.576** | **0** | **310.576** | **310.576** |
| **Net cash outflow** | **265.480** | **-530.452** | **-264.972** | **0** | **-204.964** | **-222.521** |
| **Bonds at fair value through profit and loss** | **9.515** | **0** | **9.515** | | **9.515** | **9.515** |

*Information on fair value hierarchy is not relevant as the debt is subject to variable interest and no transaction expenses have been paid.

### Market risk

Interest on accounts with related companies are interest bearing.

The Company's currency used for payment is primarily EUR, USD and CHF. No financial instruments are used to hedge positions in foreign currency.

### Exposure at 31 December 2017:

DKK '000

| Currency | Payment/ expiry | Receivables | Payables | Bond, bank and credit-institutions | Net position |
|---|---|---|---|---|---|
| USD | < 1 year | 125.315 | 0 | 5086 | 130.401 |
| EUR | < 1 year | 129 | -18 | 3.699 | 3.810 |
| EUR | > 1 year | 0 | 0 | -744.490 | -744.490 |
| CHF | < 1 year | 85.331 | -71 | 4 | 85.264 |
| SEK | < 1 year | 0 | 0 | 1.043 | 1.043 |
| Other | < 1 year | 0 | 0 | 1.030 | 1.030 |
| | | 210.775 | -89 | -733.628 | -522.942 |

# Notes to the Annual Report, Parent Company

## 17 Financial risks (continued)

**Exposure at 31 December 2016:**

DKK '000

| Currency | Payment/ expiry | Receivables | Payables | Bond, bank and credit-institutions | Net position |
|---|---|---|---|---|---|
| USD | < 1 year | 139.300 | 0 | 5717 | 145.017 |
| EUR | < 1 year | 1.061 | 0 | 1.075 | 2.136 |
| CHF | < 1 year | 65.005 | -7.989 | 17 | 57.033 |
| SEK | < 1 year | 0 | -6.567 | 7.404 | 837 |
| SEK | > 1 year | 0 | 0 | -505.700 | -505.700 |
| Other | < 1 year | 0 | 0 | 160 | 160 |
| | | 205.366 | -14.556 | -491.327 | -300.517 |

A 10% increase in SEK compared to the exchange rate at 31 December 2017 towards all other currencies will entail a positive change of profit for the year before tax of DKK 104k (2016: negative change of DKK 50.486k) and a similar effect on equity.

A 10% increase in USD compared to the exchange rate at 31 December 2017 towards all other currencies will entail a positive change of profit for the year before tax of DKK 13.040k (2016: DKK 14.502k) and a similar effect on equity.

A 10% increase in CHF compared to the exchange rate at 31 December 2017 towards all other currencies will entail a positive change of profit for the year before tax of DKK 8.526k (2016: DKK 5.703k) and a similar effect on equity.

**Capital management**

The objective of the Company's capital management is to ensure the Company's ability to continue as a going concern in order to yield return on investment to the shareholders and to create and maintain an optimal capital structure in order to reduce the costs of capital and maintain a basis of continued growth in the Group.

Total capital makes up the equity shown in the balance sheet.

# Notes to the Annual Report, Parent Company

## 18 Related parties

| Controlling interest | Basis |
| --- | --- |
| Poul M. Mikkelsen, Büelweg 9, CH-6442 Gersau | Controlling shareholder |
| Ammon Ammon AG, Meierhofstrasse 5, FL-9490 Vaduz | Ultimate parent company |
| PMM Holding (Luxembourg) AG, 5, rue Guillaume Kroll, L-1882 Luxembourg | Parent company |
| Jacob Holm & Sons AG, Picassoplatz 8, CH-4052 Basel | Parent company |

**Other related parties**

| | |
| --- | --- |
| PMM Holding AG, Büelweg 9, CH-6442 Gersau | Sister company |
| Dønnerup A/S, c/o Accura Advokatpartnerselskab, Tuborg Boulevard 1, DK-2900 Hellerup | Sister company |

**Transactions**

| | 2017<br>DKK '000 | 2016<br>DKK '000 |
| --- | --- | --- |
| Parent: | | |
| The company has during the year paid a management fee of | 372 | 373 |
| The company has during the year paid a guarantee fee of | 3.014 | 3.188 |
| The company has during the year paid dividends of | 25.000 | 20.000 |

The guarantee fee relates to the Parent company's guarantee regarding the issued Bond. The Parent company is guaranteeing an amount of up to EUR 100m (2016: SEK 650m).

| | 2017<br>DKK '000 | 2016<br>DKK '000 |
| --- | --- | --- |
| Subsidiaries: | | |
| The company has during the year received a management fee of | 2.164 | 2.811 |
| The company has during the year received interests of | 24.970 | 18.960 |
| The company has during the year received dividends of | 58.395 | 34.600 |
| Other related parties: | | |
| The company has during the year received a management fee of | 650 | 650 |
| The company has during the year paid rental charges of | 677 | 677 |

**Payables to related companies**

| | 2017 | 2016 |
| --- | --- | --- |
| Jacob Holm & Sons AG | 70 | 7.989 |
| | **70** | **7.989** |

# Notes to the Annual Report, Parent Company

| | 2017<br>DKK '000 | 2016<br>DKK '000 |
|---|---|---|
| **19 Fee to auditors appointed at the general meeting** | | |
| Audit fee | 75 | 75 |
| Tax consultancy | 10 | 0 |
| Non-audit services | 45 | 55 |
| Total | **130** | **130** |

## 20 Dividends per share

A dividend in respect of the year ended 31 December 2017 of DKK 25 per share, amounting to a total dividend of DKK 25 million, is to be proposed at the annual general meeting on 24 April 2018.