Schades A/S

Øster Fælled Vej 5
7800 Skive

CVR no. 38 97 82 17

Annual report 2017

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

on May 31st 20 18

chairman of the annual general meeting

Contents

Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Schades A/S for the financial year 1 January – 31 December 2017.

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

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2017.

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

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

Skive, 31 May 2018
Executive Board:

Marcel Bergmann
Managing Director

Hyung Nyun Sim

Jesper Jumppanen Andersen

Board of Directors:

Mark Anthony Rooney
Chairman

Sang Hyon Ryu

Byung Gab Yang

Marcel Bergmann

Hyung Nyun Sim

Kyu Sok Kim

Chul Young Kim

Independent auditor's report

To the shareholders of Schades A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of Schades A/S for the financial year 1 January – 31 December 2017 comprising income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group as well as for the Parent Company and a cash flow statement for the Group. The consolidated financial statements and parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the Parent Company's assets, liabilities and financial position at 31 December 2017 and of the results of the Group's and the Parent Company's operations and consolidated cash flows for the financial year 1 January – 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

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

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

Independent auditor's report

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

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

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

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

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

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

— evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

KPMG

Independent auditor's report

- conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent company financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements and the parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our 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 and the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and contents of the consolidated financial statements and the parent company financial statements, including the disclosures, and whether the consolidated financial statements and the parent company financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Statement on the Management's review

Management is responsible for the Management's review.

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

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

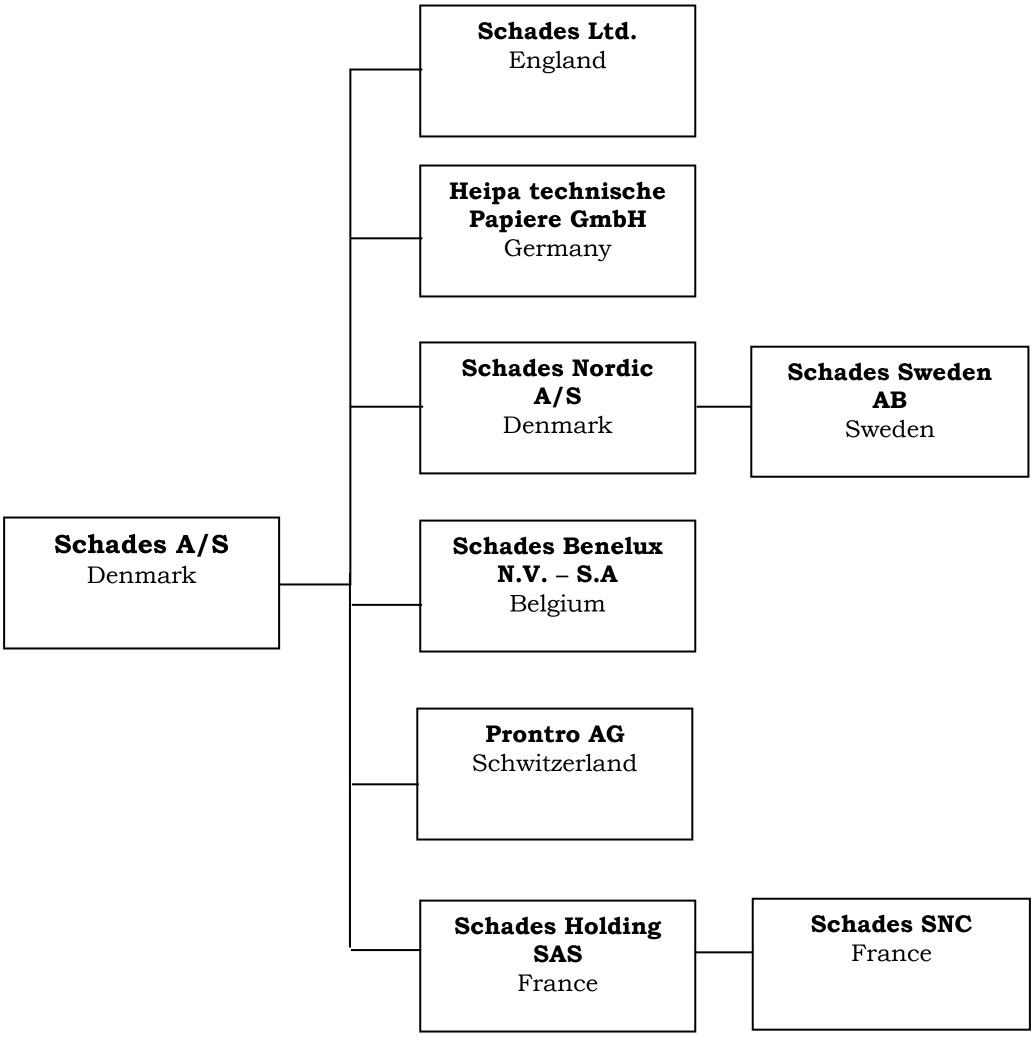
Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

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

Aarhus, 31 May 2018
KPMG
Statsautoriseret Revisionspartnerselskab
CVR no. 25 57 81 98

Anette Harritz
State Authorised
Public Accountant
MNE no. 9368

Group chart



100% owned unless otherwise stated

Management's review

Financial highlights for the Group

DKK'000	2017	2016	2015	2014	2013
Revenue	678,377	610,570	637,354	599,152	612,499
Gross profit	97,828	75,653	68,167	69,907	80,667
Ordinary operating profit/loss	10,821	2,011	-24,554	-2,217	17,450
Financial income and expenses	-6,476	-2,058	-1,298	-821	-1,842
Profit/loss before tax	6,048	-47	-25,852	-1,396	15,608
Profit/loss for the year	7,790	206	-27,362	-6,427	6,334
Fixed assets	58,356	60,999	66,684	65,813	56,243
Current assets	236,750	245,621	226,274	280,382	282,068
Total assets	295,106	306,620	292,958	346,195	338,311
Share capital	60,000	60,000	48,750	50,000	11,185
Equity	111,378	109,206	97,464	136,228	146,552
Provisions	20,879	16,934	6,270	5,895	3,036
Current liabilities other than provisions	162,849	180,480	189,224	204,072	188,536
Investment in property, plant and equipment	5,272	6,612	7,158	9,911	2,665
Depreciation on property, plant and equipment	5,352	6,416	12,276	11,780	9,058
Cash flows from operating activities	32,944	-45,199	35,709	23,477	-971
Cash flows from investing activities	-7,881	-7,524	-15,689	-22,310	-12,423
Cash flows from financing activities	-14,593	96,844	-12,358	0	5,462
Total cash flows	10,470	44,121	7,662	1,167	-7,932
Gross margin	14.4%	12.4%	10.7%	11.7%	13.2%
Operating margin	1.8%	0.3%	-3.8%	-0.4%	2.8%
Return on assets	4.2%	0.2%	-7.7%	-0.6%	5.7%
Current ratio	145.4%	136.1%	119.6%	137.4%	149.6%
Return on equity	7.1%	0.2%	-23.8%	-9.4%	4.5%
Solvency ratio	37.7%	35.6%	33.3%	39.4%	43.3%
Average number of full-time employees	198	204	205	196	182

The financial ratios have been calculated as follows:

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

Operating margin $$\frac{\text{Operating profit x 100}}{\text{Revenue}}$$

Return on assets $$\frac{\text{Profit before financial items x 100}}{\text{Average assets}}$$

Current ratio $$\frac{\text{Current assets x 100}}{\text{Short term liabilities}}$$

Return on equity $$\frac{\text{Profit from ordinary activities after tax x 100}}{\text{Average equity}}$$

Solvency ratio $$\frac{\text{Equity ex. non-controlling interests at year end x 100}}{\text{Total equity and liabilities at year end}}$$

Management's review

Operating review

The Group's principal activities

The Groups main activity is production and marketing of documentation paper rolls used in payment systems as well as production and marketing of self-adhesive labels used within food retail, in the food industry and by logistic providers.

Development in activities and financial position

During the period under review, the Group generated revenue of DKK 678 million. Further, gross profit amounted to DKK 97.8 million compared to DKK 75.7 million in 2016. Revenue and gross profit are primarily affected by foreign exchange rate fluctuations, mainly in GBP. Volume and market share are substantially unchanged.

Ordinary operating profit reached DKK 10.8 million as against DKK 2.0 million in 2016. During 2017, we realised increased sales prices and higher revenue from labels than last year. All companies in the group have enjoyed better performance during 2017, and especially the UK where a main competitor left the market.

Results for the year after tax came in at DKK 7.8 million as against DKK 0.2 million in 2016. Despite foreign exchange rate fluctuations, results live up to expectations for the year.

As of 31 December 2017, equity amounted to DKK 111.4 million. The Group's solvency ratio was 37.7% as against 35.6% at the end of 2016.

The Group's company in the UK recognised a loss of DKK 5.3 million in the actuarial report for the pension scheme. This amount has been settled against equity.

Outlook

The Company expects to report an increase in revenue for 2018. Still these expectations are subject to uncertainty as a consequence of fluctuations in currency exchange rates on the Group's main markets, and the general development in the world economy, especially the development in energy costs.

Financial risks

The Company's activities pose financial risks arising from debtors, cash and cash equivalents and credits at credit institutions in Danish as well as in foreign currencies.

The fluctuations in exchange rates have had a negative influence on the Company's results. The Group is, to some extent, exposed to changes in interest rates, and fluctuations in exchange rates also have an influence on the Company's cash flows.

The Company's receivables are split in a way ensuring that the credit risk is not unusual.

Management's review

Operating review

The Company does not speculate in foreign currency and present cash only from a commercial aspect.

Environmental matters

There is no particular environmental impact from the Group's production.

Development activities

The Group and the Company have no specific development activities.

Corporate social responsibility

The Group and the Company have not formulated any specific policies on social responsibility, including impact on climate, human rights and environment.

Goals and policies for the underrepresented gender

We believe our future competitiveness relies on the ability to attract and retain a diverse workforce. The goals are to:

— increase the number of females on Management.

— broaden out talent pool and looking beyond traditional sources.

— motivate people and support them in reaching their full potential.

The target for 2020 is that female board members are to account for 25% of the board members. No female board members served on the Board of Directors in 201. The diversity policy is adopted by the Board of Directors. However, Schades A/S recruits candidates for executive positions within the Hansol Group which might set limits for possible diversity.

Furthermore, Schades A/S recruits candidates for executive positions within the Hansol Group, and takes subject in above mentioned targets.

Actions 2017:

During 2017, the Group reached the level of 40% for female managers.

Outlook for 2018:

— to sustain the level of female managers up to 40%

Events after the balance sheet date

After the balance sheet date, the Group has been negotiating its credit facilities maturing in April-June 2018 and expect to issue agreements during June 2018 with Danish banks. Loan facility with foreign bank which matured in May 2018 was extended for one year, which was covered by the ultimate parent company guarantee. The ultimate parent company has also issued a letter of financial support to Hansol Denmark ApS, covering all subsidiaries, including Schades A/S.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Income statement

		Group		Parent Company	
DKK'000	Note	2017	2016	2017	2016
Revenue		678,377	610,570	0	0
Production costs	2,3,4	-580,549	-534,917	0	0
Gross profit		97,828	75,653	0	0
Distribution costs	2,4	-57,155	-49,401	0	0
Administrative expenses	2,3,4,5	-29,852	-24,241	-12,257	-11,249
Ordinary operating profit/loss		10,821	2,011	-12,257	-11,249
Other operating income		1,703	0	6,334	5,684
Operating profit/loss		12,524	2,011	-5,923	-5,565
Income from equity investments in group entities, net of tax	6	0	0	13,829	4,406
Other financial income	7	46	755	923	1,338
Other financial expenses	8	-6,522	-2,813	-2,265	-1,721
Profit/loss before tax		6,048	-47	6,564	-1,542
Tax on profit/loss for the year	9	1,742	253	1,226	1,748
Profit for the year	10	7,790	206	7,790	206

Consolidated financial statements and parent company financial statements 1 January – 31 December

Balance sheet

		Group		Parent Company	
DKK'000	Note	2017	2016	2017	2016
ASSETS					
Fixed assets					
Intangible assets	3				
Goodwill		370	647	0	0
Software		9,182	10,681	9,182	10,681
		9,552	11,328	9,182	10,681
Property, plant and equipment	4				
Land and buildings		20,120	20,419	0	0
Plant and machinery		17,364	18,657	0	0
Fixtures and fittings, tools and equipment		1,430	1,047	0	0
Property, plant and equipment under construction		178	0	0	0
		39,092	40,123	0	0
Investments					
Equity investments in group entities	6	0	0	121,113	122,900
Deposits		1,442	1,278	0	0
Other investments		8,270	8,270	8,270	8,270
		9,712	9,548	129,383	131,170
Total fixed assets		58,356	60,999	138,565	141,851
Current assets					
Inventories					
Raw materials and consumables		44,618	47,311	0	0
Finished goods and goods for resale		36,730	39,015	0	0
		81,348	86,326	0	0

Consolidated financial statements and parent company financial statements 1 January – 31 December

Balance sheet

		Group		Parent Company	
DKK'000	Note	2017	2016	2017	2016
ASSETS (continued)					
Current assets (continued)					
Receivables					
Trade receivables		124,623	121,704	0	0
Receivables from related parties		4,091	9,791	30,078	37,399
Deferred tax asset	11	2,745	166	0	0
Corporation tax		1,101	0	0	618
Other receivables		8,173	12,657	928	791
Prepayments		864	212	137	0
		141,597	144,530	31,143	38,808
Cash at bank and in hand		13,805	14,765	43	0
Total current assets		236,750	245,621	31,186	38,808
TOTAL ASSETS		295,106	306,620	169,751	180,659

Consolidated financial statements and parent company financial statements 1 January – 31 December

Balance sheet

		Group		Parent Company	
DKK'000	Note	2017	2016	2017	2016
EQUITY AND LIABILITIES					
Equity	12				
Share capital		60,000	60,000	60,000	60,000
Reserve for net revaluation according to the equity method		0	0	0	0
Retained earnings		51,378	49,206	51,378	49,206
Total equity		111,378	109,206	111,378	109,206
Provisions					
Provisions for deferred tax	11	3,761	4,152	1,998	2,260
Other provisions	13	17,118	12,782	0	0
Total provisions		20,879	16,934	1,998	2,2600
Liabilities other than provisions					
Current liabilities other than provisions					
Credit institutions		59,751	85,573	31,295	57,200
Trade payables		21,768	25,444	697	691
Payables to related parties		39,505	44,042	24,265	11,066
Other payables, including taxes payable		41,825	25,421	118	236
		162,849	180,480	56,375	69,193
Total liabilities other than provisions		162,849	180,480	56,375	69,193
TOTAL EQUITY AND LIABILITIES		295,106	306,620	169,751	180,659

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of changes in equity

	Group		
DKK'000	Share capital	Retained earnings	Total
Equity at 1 January 2016	48,750	48,714	97,464
Adjustment of pension obligation	0	-9,086	-9,086
Transferred over the profit appropriation/distribution of loss	0	206	206
Exchange rate adjustment, foreign subsidiary	0	-1,878	-1,878
Capital contribution	11,250	11,250	22,500
Equity at 1 January 2017	60,000	49,206	109,206
Transferred over the profit appropriation/distribution of loss	0	7,790	7,790
Adjustment of pension obligation	0	-5,259	-5,259
Exchange rate adjustment, foreign subsidiary	0	-357	-357
Equity at 31 December 2017	60,000	51,378	111,378

Consolidated financial statements and parent company financial statements 1 January – 31 December

Statement of changes in equity

	Parent Company		
DKK'000	Share capital	Retained earnings	Total
Equity at 1 January 2016	48,750	48,714	97,464
Adjustment of pension obligation	0	-9,086	-9,086
Transferred over the profit appropriation/distribution of loss	0	206	206
Exchange rate adjustment, foreign subsidiary	0	-1,878	-1,878
Capital contribution	11,250	11,250	22,500
Equity at 1 January 2017	60,000	49,206	109,206
Transferred over the profit appropriation/distribution of loss	0	7,790	7,790
Adjustment of pension obligation	0	-5,259	-5,259
Exchange rate adjustment, foreign subsidiary	0	-357	-357
Equity at 31 December 2017	60,000	51,378	111,378

Consolidated financial statements and parent company financial statements 1 January – 31 December

Cash flow statement

		Group	
DKK'000	Note	2017	2016
Profit/loss for the year		7,790	206
Other adjustments of non-cash operating items	14	10,143	16,538
Cash generated from operations before changes in working capital		17,933	16,744
Changes in working capital	15	19,488	-59,298
Cash generated from operations		37,421	-42,554
Interest income		46	1,473
Interest expense		-2,497	-3,531
Corporation tax paid		-2,026	-587
Cash flows from operating activities		32,944	-45,199
Acquisition of intangible assets	3	-3,641	-1,454
Acquisition of property, plant and equipment	4	-5,272	-6,612
Disposal of property, plant and equipment		1,196	1,464
Acquisition of other investments		0	-827
Additions/disposal on deposits		-164	-95
Cash flows from investing activities		-7,881	-7,524
External financing:			
Proceeds from borrowings		0	74,344
Repayment of borrowings		-14,593	0
Shareholders:		0	0
Capital contributions		0	22,500
Cash flows from financing activities		-14,593	96,844
Cash flows for the year		10,470	44,121
Cash and cash equivalents at the beginning of the year		3,536	-40,323
Change in cash and cash equivalents		10,470	44,121
Adjustments in exchange rates		-201	-262
Cash and cash equivalents at year end	16	13,805	3,536

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies

The annual report of Schades A/S for 2017 has been prepared in accordance with the provisions applying to reporting class C large entities under the Danish Financial Statements Act.

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

Consolidated financial statements

The consolidated financial statements comprise the Parent Company, Schades A/S, and subsidiaries in which Schades A/S directly or indirectly holds more than 50% of the votes or in some other way exercises control. Entities in which the Group holds between 20% and 50% of the votes and exercises significant influence but not control are considered associates. A group chart is included on page 7.

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

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

Business combinations

When acquiring new entities, the purchase method is applied under which identifiable assets and liabilities are measured at fair value at the date of acquisition. Restructuring costs recognised in the acquirer at the acquisition date that are not a part of the acquisition are included in the pre-acquisition balance sheet and thus the determination of goodwill. Restructuring that is adopted after the acquisition is recognised in the income statement. The tax effect of revaluations is recognised as deferred tax.

Positive differences (goodwill) between cost and the fair value of identifiable assets and liabilities acquired, including restructuring provisions, are recognised as intangible assets and amortised systematically in the income statement based on an individual assessment of the useful life. Negative goodwill is recognised as income in the income statement at the acquisition date when the usual conditions for recognition of income are met.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Goodwill and negative goodwill from acquired entities may be adjusted until 12 months after the acquisition date.

Newly acquired or newly established entities are recognised in the consolidated financial statements at the date of acquisition or establishment. Divested or wound-up entities are recognised in the consolidated income statement up to the date of divestment or winding-up. Comparative figures are not restated to reflect acquisitions, divestments or windings-up.

The uniting-of-interests method is applied to business combinations such as the acquisition and disposal of equity investments, mergers, demergers, contribution of assets, share exchanges, etc., between entities controlled by the Parent Company. The uniting of interests is considered to have been completed at the date of the acquisition without restatement of comparative figures. Differences between the agreed consideration and the carrying amount of the acquired entity is recognised in equity.

Gains or losses on the divestment of subsidiaries and associates are calculated as the difference between the sales amount and the carrying amount of net assets at the date of disposal, including non-amortised goodwill and projected costs of divestment or winding-up.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rates at the transaction date and the date of payment are recognised in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or financial expenses.

Upon recognition of foreign subsidiaries and associates which are independent entities, the income statements are translated into Danish kroner at average exchange rates for the month, and balance sheet items are translated at the exchange rates at the balance sheet date. Foreign exchange differences arising upon translation of foreign subsidiaries' opening equity and results at the exchange rates at the balance sheet date are recognised directly in equity.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Foreign exchange adjustments of balances with independent foreign subsidiaries considered part of the total investment in the subsidiary are recognised directly in equity. Similarly, foreign exchange gains and losses on loans and derivative financial instruments taken out for the purpose of hedging investments in foreign subsidiaries are recognised directly in equity.

Upon recognition of foreign subsidiaries which are integrated entities, monetary items are translated at the exchange rates at the balance sheet date. Non-monetary items are translated at the exchange rates at the date of acquisition or the date of subsequent revaluations of the asset. Income statement items are translated at the exchange rates at the transaction date, whereas items derived from non-monetary items are translated at historical exchange rates for the non-monetary item.

Income statement

Revenue

Revenue from sale of goods is recognised in the Income Statement if delivery and transfer of risk have taken place before the end of the year and if the income can be measured reliably and is expected to be received. Revenue is recognised less VAT, indirect taxes and all kind of discounts granted in connection with the sale.

The Group does not disclose any segment information, as the Group only operates within one business segment and one European market.

Production costs

Production costs comprise costs, including depreciation, amortisation, wages and salaries incurred to generate revenue for the year. Commercial entities recognise their cost of sales, whereas production entities recognise production costs incurred to generate revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries, rent and leases and depreciation of production plant.

Distribution costs

Distribution costs comprise costs incurred to distribute goods sold during the year and to conduct sales campaigns, etc., including costs relating to sales staff, advertising and exhibitions as well as depreciation.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Administrative expenses

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

Other operating income and expenses

Other operating income comprises items secondary to the activities of the Group, including gains on the disposal of intangible assets and property, plant and equipment.

Income from equity investments in group entities and associates

The proportionate share of the individual subsidiaries' profit/loss after tax is recognised in the Parent Company's income statement after full elimination of intra-group gains/losses and amortisation of goodwill.

Financial income and expenses

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

Tax on profit/loss for the year

The Parent Company is comprised by the Danish rules on compulsory joint taxation of the Group's Danish subsidiaries. The subsidiaries are included in the joint taxation from the date when they are included in the consolidated financial statements and up to the date when they are excluded from the consolidation.

On payment of joint taxation contributions, current Danish corporation tax is allocated between the jointly taxed entities in proportion to their taxable income. Entities with tax losses receive joint taxation contributions from entities that have used the losses to reduce their own taxable profit.

Tax for the year comprises current tax for the year and changes in deferred tax, including changes in tax rates. The tax expense relating to the profit/loss for the year is recognised in the income statement at the amount attributable to the profit/loss for the year and directly in equity at the amount attributable to entries directly in equity.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Balance sheet

Intangible assets

Intangible assets, which include software and goodwill, are measured at cost less accumulated amortisation. Amortisation is provided on a straight-line basis over the expected useful lives of the assets of 2-10 years. Amortisation of goodwill is provided over the estimated useful lives of the assets of 5-10 years, which is fixed on the basis of experience gained by the Management and longest for strategically acquired entities.

Property, plant and equipment

Land and buildings are measured at cost less accumulated depreciation on buildings. Land and buildings are written down to the recoverable amount if this is lower than the carrying amount and not temporary.

Plant and machinery, including assets held on finance leases, other plant, machinery and equipment and leasehold improvements are measured at cost less accumulated depreciation. Plant and machinery are written down to the recoverable amount if this is lower than the carrying amount and not temporary.

The costs of lease agreements are the lower of the fair values and present values of future lease payments. When calculating the present value of the lease, the internal interest rate is used as discount rate or an approximated value hereof.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets.

Expected useful lives are:

Buildings	25 years
Plant and machinery	5-8 years
Fixtures and fittings, tools and equipment	3-5 years

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

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

Property, plant and equipment under construction are recognised and measured at cost at the balance sheet date. Upon entry into service, the cost is transferred to the relevant group of property, plant and equipment.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Gains and losses arising from disposals of property, plant and equipment are measured as the difference between the selling price less sales cost and the carrying amount at the time of disposal.

Leases

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

The capitalised lease obligation is recognised in the balance sheet as a liability at amortised cost, allowing the interest element of the lease payment to be recognised in the income statement over the term of the lease.

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

Investments in group entities and associates

Equity investments in subsidiaries and associates are measured at the proportionate share of the entities' net asset value calculated in accordance with the Parent Company's accounting policies plus or minus unrealised intra-group gains or losses and plus or minus the residual value of positive and negative goodwill calculated in accordance with the acquisition method.

Equity investments in subsidiaries and associates with negative net asset values are measured at DKK 0, and any receivables from these entities are written down to the extent that the receivables are deemed irrecoverable. To the extent that the Parent Company has a legal or constructive obligation to cover a negative balance exceeding the receivable, the residual amount is recognised as provisions.

Other securities and equity investments

Other securities and equity investments are measured at fair value. The fair value is made up at the market value at the balance sheet date if the securities are listed and at cost if securities are un-listed.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Impairment of fixed assets

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

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

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

Previously recognised write-downs are reversed when the basis for the write-down no longer exists. Write-down of goodwill is not reversed.

Inventories

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

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

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

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

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses where there is an objective indication that a receivable or a portfolio of receivables has been impaired. If there is an objective indication that an individual receivable has been impaired, write-down is made on an individual basis.

Receivables with no objective indication of individual impairment are assessed for objective indication of impairment on a portfolio basis. The portfolios are primarily based on the debtors' registered offices and credit rating in accordance with the Company's credit risk management policy. The objective indicators used in relation to portfolios are determined on the basis of historical loss experience.

Write-downs are calculated as the difference between the carrying amount of receivables and the present value of forecast cash flows, including the realisable value of any collateral received. The effective interest rate for the individual receivable or portfolio is used as discount rate.

Prepayments and deferred income

Prepayments and deferred income comprise incurred expenses and income related to the following financial year.

Equity

Dividends

Proposed dividends are recognised as a liability at the time of adoption at the general meeting (declaration of dividends). Dividends expected to be distributed for the financial year are disclosed as a special item under equity.

Net revaluation reserve according to the equity method

Net revaluation reserve according to the equity method comprises net revaluation of equity investments in subsidiaries and associates in proportion to cost.

Dividends that are expected to be received before the balance sheet date are not tied to the reserve.

The reserve can be eliminated in case of loss, realisation of equity investments or changes to accounting estimates.

The reserve cannot be recognised at a negative amount.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Corporation tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the Statement of financial position as tax calculated on the taxable income adjusted for tax on previous years' taxable income and taxes paid on account.

Deferred tax comprises the difference between the carrying amount and tax values and is recognised as provisions. If the deferred tax becomes a tax asset, the item is recognised under current assets with the value at which the tax asset is expected to be realised.

Deferred tax is measured on the basis of the tax rules and rates in force in the respective countries at the Statement of financial position date at the time when the deferred tax is expected to crystallize as current tax. Changes in deferred tax due to changes in tax rates are recognised in the Income Statement.

Provisions

Provisions are recognised when the Group, as a consequence of previous events, has a legal or actual obligation and when it is likely that the fulfilment of the obligation will lead to an outflow of financial resources in the Group.

Provisions are made for restructuring when decided at the Statement of financial position date, at the latest. Other provisions include provision for unfunded pension obligations in foreign subsidiary, based on an actuarial calculation. Adjustment of unfunded pension obligation is recognised directly in equity.

Financial liabilities

Debts to credit institutions are recognised at received proceeds less transaction costs when borrowed.

The capitalised value of residual finance leases is recognised as financial liabilities.

Liabilities including payables to suppliers, subsidiaries and associated companies and other debts are measured at amortised cost.

Finance lease obligation comprise the capitalised residual lease obligation of finance leases.

Other liabilities are measured at net realisable value.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

1 Accounting policies (continued)

Group cash flow statement

The cash flow statement shows the Group's cash flows and cash and cash equivalents at the beginning and end of the year.

Cash flow from operating activities

Cash flow from operating activities is disclosed indirectly and computed as the year's result adjusted for non-liquid operating items, changes in working capital, payments related to financial items and corporation taxes.

Cash flow from investing activities

Cash flow from investing activities comprises payments related to acquisition and disposal of fixed assets.

Cash flow from financing activities

Cash flow for financing activities comprises payments to and from shareholders, raising and payment of instalments on mortgage debts and other long-term debts.

Cash and cash equivalents

Cash and cash equivalents comprise cash and easy-to-sell securities with insignificant risk of value adjustments less short-term bank loans that mature on demand and are part of the ongoing cash management.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

		Group		Parent Company	
	DKK'000	2017	2016	2017	2016
2	**Staff costs**				
	Wages and salaries	54,634	59,009	0	1,277
	Pensions	6,900	10,892	0	47
	Other social security costs	5,184	3,600	0	7
		66,718	73,501	0	1,331
	Average number of full-time employees	198	204	0	1
	Staff costs are recognised in the consolidated financial statements and the parent company financial statements as follows				
	Production costs	35,882	34,784	0	0
	Distribution costs	19,804	16,748	0	0
	Administrative expenses	5,773	12,883	0	1,331
	Equity	5,259	9,086	0	0
		66,718	73,501	0	1,331

Staff costs of the Group and the Parent Company include no remuneration of the Parent Company's Executive Board. Their salary is part of their remuneration from other group companies. The Parent company paid DKK 1,495 thousand of management fee, which is mainly represented by the remuneration for management function performed.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

3 Intangible assets

DKK'000	Group Software	Group Goodwill	Group Total
Cost at 1 January 2017	25,347	8,054	33,401
Additions	3,641	0	3,641
Cost at 31 December 2017	28,988	8,054	37,042
Amortisation and impairment losses at 1 January 2017	14,666	7,407	22,073
Amortisation	5,140	277	5,417
Amortisation and impairment losses at 31 December 2017	19,806	7,684	27,490
Carrying amount at 31 December 2017	9,182	370	9,552

Amortisation in the Group can be specified as follows:

Administrative expenses	5,140	277	5,417
	5,140	277	5,417

DKK'000	Parent Company Software	Parent Company Total
Cost at 1 January 2017	25,347	25,347
Additions	3,641	3,641
Cost at 31 December 2017	28,988	28,988
Amortisation and impairment losses at 1 January 2017	14,666	14,666
Amortisation	5,140	5,140
Amortisation and impairment losses at 31 December 2017	19,806	19,806
Carrying amount at 31 December 2017	9,182	9,182

Amortisation in the Group can be specified as follows:

Administrative expenses	5,140	5,140
	5,140	5,140

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

4 Property, plant and equipment

	Group				
DKK'000	Land and buildings	Plant and machinery	Operating equipment and fixtures and fittings, etc.	Property, plant and equipment under construction	Total
Cost at 1 January 2017	52,625	125,790	4,725	0	183,140
Exchange rate adjustments in foreign entities	-239	-1,617	-97	0	-1,953
Additions	1,198	3,262	634	178	5,272
Disposals	-301	-688	-1,363	0	-2,352
Transfer	0	-422	422	0	0
Cost at 31 December 2017	53,283	126,325	4,321	178	184,107
Depreciation and impairment losses at 1 January 2017	32,206	107,133	3,678	0	143,017
Exchange rate adjustments in foreign entities	-211	-1,431	-87	0	-1,729
Depreciation	1,168	3,775	409	0	5,352
Depreciation on disposals	0	-516	-1,109	0	-1,625
Depreciation and impairment losses at 31 December 2017	33,163	108,961	2,891	0	145,015
Carrying amount at 31 December 2017	20,120	17,364	1,430	178	39,092

Depreciation in the Group can be specified as follows:

Production costs	4,780
Distribution costs	337
Administrative expenses	235
	5,352

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

5 Fees to auditor appointed at the general meeting

	Group		Parent Company	
DKK'000	2017	2016	2017	2016
Total fees to KPMG				
Statutory audit	851	801	110	107
Tax assistance	203	15	203	0
Other assurance engagements	242	245	0	0
Non-audit services	559	571	422	129
	1855	1632	735	236

6 Investments

	Parent Company	
DKK'000	2017	2016
Equity investments in subsidiaries		
Cost at 1 January	271,402	225,865
Additions	0	45,537
Cost at 31 December	271,402	271,402
Adjustments at at 1 January	-148,502	-132,028
Profit for the year after tax	13,829	4,406
Exchange rate adjustments	-357	-1,794
Equity adjustment of pension obligation	-5,259	-9,086
Paid out dividends	-10,000	-10,000
Adjustments at 31 December	-150,289	-148,502
Carrying amount at 31 December	121,113	122,900
Equity investments in subsidiaries with negative carrying amount	0	0
Equity investments in subsidiaries with positive carrying amount	121,113	122,900
Portion relating to the remaining balance (non-amortised goodwill)	370	647

Company name	Reg. office	Ownership
Schades Holding Ltd.	England	100%
Schades Holding S.A.	France	100%
Schades Nordic A/S	Denmark	100%
Schades Benelux N.V.-S.A.	Belgium	100%
Heipa Technische Papiere GmbH	Germany	100%
Prontro AG	Switzerland	100%

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

	Group		Parent Company	
DKK'000	2017	2016	2017	2016

7 Financial income

Foreign exchange gains	0	718	0	1,301
Interest from subsidiaries	0	0	878	0
Other interest income	46	37	45	37
	46	755	923	1,338

8 Financial expenses

Foreign exchange losses	4,025	0	219	0
Other interest expense	2,497	2,813	1,386	1,721
Interest to subsidiaries	0	0	660	0
	6,522	2,813	2,265	1,721

9 Tax on profit/loss for the year

	Group		Parent Company	
DKK'000	2017	2016	2017	2016
Current tax for the year	-724	-855	1,204	618
Adjustment of tax previous years	-504	330	-240	438
Deferred tax adjustment for the year	2,970	778	262	692
	1,742	253	1,226	1,748

10 Proposed profit appropriation/ distribution of loss

Retained earnings	7,790	206	7,790	206
	7,790	206	7,790	206

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

11 Deferred tax

	Group		Parent Company	
DKK'000	2017	2016	2017	2016
Deferred tax asset	2,745	166	0	0
Provisions for deferred tax	-3,761	-4,152	-1,998	-2,260
Deferred tax position	-1,016	-3,986	-1,998	-2,260
Deferred tax at 1 January	-3,986	-113	-2,260	1,676
Deferred tax adjustment for the year in the income statement	2,970	778	262	692
Reduction of Danish corporation tax rate to 22% in 2016, including adjustment of tax in respect of previous years	0	-4,651	0	-4,628
	-1,016	-3,986	-1,998	-2,260

12 Share capital

The share capital consists of:

60,000 (2015: 48,750) shares of DKK 100.

All shares rank equally.

13 Other provisions

	Group		Parent Company	
DKK'000	2017	2016	2017	2016
Opening liabilities at 1 January	12,782	4,287	0	0
Provisions for the year	4,336	8,495	0	0
Other provisions at 31 December	17,118	12,782	0	0
The provisions are expected to be activated as follows:				
0-1 years	0	0	0	0
1-5 years	0	0	0	0
>5 years	17,118	12,782	0	0
	17,118	12,782	0	0

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

DKK'000	Group 2017	Group 2016
14 Other adjustments		
Loss/gain	-1,327	3,362
Tax on profit/loss for the year	-1,751	-253
Depreciation and amortisation	10,770	11,371
Interest receivable and similar income	-46	-1,473
Interest payable and similar expenses	2,497	3,531
	10,143	16,538

	2017	2016
15 Changes in working capital		
Change in inventories	4,978	-4,617
Change in receivables	-2,919	-15,067
Change in receivables from related parties	5,700	-9,791
Change in other debtors	3,832	-5,469
Change in trade and other payables	13,848	-2,727
Changes in payables to related parties	-5,951	-21,627
	19,488	-59,298

16 Cash and cash equivalents

Cash and cash equivalents and loans at 31 December comprise:

	2017	2016
Credit institutions, overdraft	0	-11,229
Cash at bank and in hand	13,805	14,765
Cash and cash equivalents at 31 December	13,805	3,536

17 Contractual obligations, contingencies, etc.

Group and Parent

Contingent assets

As at 31 December 2017, the Group has unrecognised deferred tax assets on tax losses amounting to DKK 5.7 million, which was originated in subsidiaries in the UK and Germany. Deferred tax assets on tax losses was not recognised as there are some uncertainties regarding utilisation.

Contingent liabilities

Group is a party to a few pending lawsuits. In Management's opinion, the outcome of these lawsuits will not affect the Group's financial position.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

17 Contractual obligations, contingencies, etc. (continued)

The Group's Danish companies have joint and several liability for tax on the Group's jointly taxed income, etc. Total corporation tax payable is disclosed in the annual report of Hansol Denmark ApS, which is the administration company for the joint taxation. Furthermore, the Group's Danish entities are jointly and severally liable for withholding taxes such as dividend tax, royalty tax and interest tax. Any subsequent corrections of corporation taxes or withholding taxes, etc., may entail an increase in the entities' liability.

The Group's Danish entities are jointly and severally liable for the joint registration concerning VAT.

Operating lease obligations

The Group has entered into a number of operating leases with a remaining term up to 6 years and an average yearly lease payments of DKK 2.5 million, totalling DKK 15.4 million (2016: DKK 16.2 million).

18 Mortgages and collateral

Parent company

The Parent company has issued joint guarantees to the Schades Group's companies' engagements with banks, which as at 31 December 2017 showed a maximum facility of DKK 33.7 million and actual liability of DKK 4.7 million.

There is via bank made payment guarantee of DKK 3.7 million on Schades Group French companies' debt with the bank and a payment guarantee of DKK 1.6 million on Schades Group Swiss companies' debt with the bank.

Group

A company charge for commitments a floating charge of DKK 20 million for the credit line of the first priority with the liability of DKK 3.6 million as at 31 December 2017 and a floating charge of DKK 10 million for the credit line of the second priority with the nil liability as at 31 December 2017 on intangible assets, fixed assets (book value DKK 1.5 million as at 31 December 2017), inventory (book value DKK 23.5 million as at 31 December 2017) and debtors (book value DKK 27 million as at 31 December 2017) in the Danish Company Schades Nordic A/S, has been granted to the Danish banks regarding open credit.

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

19 Related parties

Schades A/S' related parties comprise the following:

Control

Hansol Denmark ApS
Øster Fælled Vej 5
7800 Skive

Hansol Denmark ApS holds the majority of the share capital in the Company.

Schades A/S is part of the consolidated financial statements of Hansol Denmark ApS, registered office, which is the smallest group in which the Company is included as a subsidiary.

The consolidated financial statements of Hansol Denmark ApS can be obtained on www.cvr.dk.

Schades A/S is part of the consolidated financial statements of Hansol Paper Ltd., Seoul, Korea, which is the largest group in which the Company is included as a subsidiary.

The consolidated financial statements of Hansol Paper Ltd. can be obtained by contacting the Company.

Related parties

The Group's and the Company's related parties are the parent company, subsidiaries and other companies of the same group as well as members of the Executive Board and the Board of Directors.

Related party transactions

DKK'000	2017	2016
Related party transactions		
Group		
Revenue		
Revenue from other related parties	20,340	9,583
Revenue from ultimate parent	11	8
Management fee income from other related parties	776	0
	21,127	9,591
Purchases		
Purchase of goods from ultimate parent	8,781	34,419
Purchase of goods from other related parties	207,169	252,367
Management fee expenses to other related parties	1,495	1,699
	217,445	288,485

Consolidated financial statements and parent company financial statements 1 January – 31 December

Notes

19 Related parties (continued)

DKK'000	2017	2016
Parent Company		
Management fee income from subsidiaries	5,558	5,684
Management fee income from other related parties	776	0
Income from equity investments in subsidiaries	14,106	4,681
Interest income from subsidiaries	878	0
Interest expenses to subsidiaries	-660	0
Management fee expenses to ultimate parent	-1,495	-1,699
	19,163	8,666

Related party balances

	2017	2016
Group		
Account receivables from other related parties	4,091	5,551
Account receivables from parent	0	3,742
Account receivables from ultimate parent	0	498
	4,091	9,791
Account payables to ultimate parent	1,414	0
Account payables to ultimate parent	1,438	1,936
Account payables to related parties	36,653	42,106
	39,505	44,042
Parent Company		
Account receivables from subsidiaries	29,986	33,376
Account receivables from other related parties	92	281
Account receivables from parent	0	3,742
	30,078	37,399
Account payables to subsidiaries	23,575	11,066
Account payables to parent	690	0
	24,265	11,066

Remuneration of Management is disclosed in note 2.

Group and Parent Company

The ultimate Parent Company has provided a guarantee for credit facilities of a total of EUR 3.5 million.

The ultimate Parent Company has also provided a letter of financial support.

Parent Company

Guarantee provided to subsidiaries for credit facilities of DKK 37.4 million.