

SPECTRE A/S

Orionvej 1 - 3

7430 Ikast

Central Business Registration

No 70879212

Annual report 2017

The Annual General Meeting adopted the annual report on 11.06.2018

Chairman of the General Meeting

Name: Thomas Villum Folmann

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Entity details

Entity

SPECTRE A/S
Orionvej 1 - 3
7430 Ikast

Central Business Registration No (CVR): 70879212
Registered in: Ikast-brande
Financial year: 01.01.2017 - 31.12.2017

Board of Directors

Thomas Villum Folmann, Chairman
Ole René Graversen
Jacob Lundhøj Stubkjær

Executive Board

Jesper Lundhøj Stubkjær Klausen
Jacob Lundhøj Stubkjær Klausen
Kenneth Bach Pedersen

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
Papirfabrikken 26
8600 Silkeborg

Statement by Management on the annual report

The Board of Directors and the Executive Board have today considered and approved the annual report of SPECTRE A/S for the financial year 01.01.2017 - 31.12.2017.

The annual report is presented in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2017 and of the results of its operations for the financial year 01.01.2017 - 31.12.2017.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

We recommend the annual report for adoption at the Annual General Meeting.

Ikast, 11.06.2018

Executive Board

Jesper Lundhøj Stubkjær
Klausen

Jacob Lundhøj Stubkjær Klausen

Kenneth Bach Pedersen

Board of Directors

Thomas Villum Folmann
Chairman

Ole René Graversen

Jacob Lundhøj Stubkjær

Independent auditor's report

To the shareholders of SPECTRE A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of SPECTRE A/S for the financial year 01.01.2017 - 31.12.2017, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2017, and of the results of their operations for the financial year 01.01.2017 - 31.12.2017 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 financial statements section of this auditor's report. We are independent of the Group in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the consolidated financial statements and the parent financial statements, Management is responsible for assessing the Group's and the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate the Group or the Entity 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 financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 consolidated financial statements and parent financial statements.

Independent auditor's report

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 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 Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the consolidated financial statements and the parent 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 Entity'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 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent 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 commentary

Management is responsible for the management commentary.

Independent auditor's report

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the consolidated financial statements and the parent financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Aarhus, 11.06.2018

Deloitte

Statsautoriseret Revisionspartnerselskab
Central Business Registration No (CVR) 33963556

Jacob Nørmark
State Authorised Public Accountant
Identification No (MNE) mne30176

Management commentary

	2017	2016
	DKK'000	DKK'000
Financial highlights		
Key figures		
Gross profit	80.046	71.497
Operating profit/loss	6.854	9.815
Net financials	(3.584)	(2.766)
Profit/loss for the year	4.072	4.342
Profit/loss for the year excl minority interests	4.023	4.276
Total assets	159.778	149.380
Investments in property, plant and equipment	22.533	21.140
Equity	40.901	40.982
Equity excl minority interests	40.551	40.550
Ratios		
Return on equity (%)	9,9	10,5
Equity ratio (%)	25,4	27,1

Financial highlights are defined and calculated in accordance with "Recommendations & Ratios 2015" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formula	Calculation formula reflects
Return on equity (%)	$\frac{\text{Profit/loss for the year excl minority interests} \times 100}{\text{Average equity excl minority interests}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity excl minority interests} \times 100}{\text{Total assets}}$	The financial strength of the entity.

Management commentary

Primary activities

The Company's activities are production of functional outdoor garments. The Company produces at its own factories in Latvia and Vietnam.

Development in activities and finances

The Group achieved a profit after tax of DKK ('000) 4.072 which is not satisfactory. There are several factors behind the development during 2017.

The key factor leading to this dissatisfactory result is a highly unexpected number of critical delays in fabric deliveries from nominated suppliers to our Latvian production resulting in delayed production start, low productivity and unutilized capacity followed by severe delays of deliveries to our customers. A further derivative effect of the delays is the need for air freight leading to an increase of the freight costs.

Other important factors are the decreased exchange rate of the USD which had a negative impact on the gross profit in Vietnam, and a positive impact in Latvia for styles made in fabrics purchased in USD, as well as additional start-up costs related to the new ERP system implemented January 2017.

In Vietnam we performed well in terms of all key performance indicators and therefore we were able to maintain a high customer satisfaction related to our deliveries from Vietnam. We were chosen as overall supplier of the year for the second consecutive year by one of our key customers.

During 2017 we realized a substantial expansion of the production capacity in our 100 % owned factory in Vietnam. The construction of the new factory was finished in January 2017, and during the year, more than 450 new employees were recruited and implemented in our production.

Outlook

We expect the same activity level for the coming year with an acceptable profit level compared with the fiscal year 2017.

During 2018 we will continue working with continuous improvement activities in all factories to ensure continued competitiveness. Due to the increased capacity in our own factory in Vietnam, the use of subcontractors will decrease which is in line with our strategy.

Despite the difficult supply and production situation in Latvia in 2017, we have been able to maintain our existing customer portfolio and expect to develop our cooperation further during coming years.

The company's board of directors has decided to investigate potential advantage of changing the financial year from 31st December to 31st March with effect from 2019/20 (1st April – 31st March) to align the financial reporting with the seasonality of the industry.

Management commentary

Statutory report on corporate social responsibility Executive statement

Companies that cannot show they are making a positive impact in addressing challenges like climate change, gender equality or challenges in human rights will soon have no reason for being. There are still many challenges to overcome, including the short-term focus of financial markets, the difficulty in giving social or environmental capital a true value for the next generation.

Our work with many valued business partners has allowed us to make good progress in line with our targets and we have learned from our experience as well as our mistakes. It is only in close partnerships, based on trust and mutual respect, inclusion and intergenerational thinking, that we can solve many challenges and develop in a socially responsible way. More than ever, we are committed to living our values and continuing to follow the sustainable approach as a prerequisite for growth in our business.

Corporate sustainability starts with our company values and fundamental beliefs for doing business. For Spectre, it means operating in ways that not only comply with fundamental responsibilities in the areas of human rights, labour, environment and anti-corruption, but actually goes way beyond compliance.

Conducting business in a responsible way and the awareness that good practices in one area do not offset harm in another is part of running our business. These are the dilemmas that we need to deal with in our daily operation. We seek not only to compete with other producers on low cost but to add value that is also perceived as added value for our customers. Therefore, Spectre's strategy is about continuously developing cooperation with existing partners and searching for new partners that have similar social standards and see the long term perspectives of these investments.

Respecting that we have been a member of UN Global Compact from 2010, our CSR report for 2017 is based on the Ten Principles of the UN Global Compact. Additionally, it is important for us to create a "Spectre culture" based on the key values of our "DRive" philosophy:

<i>Dedication</i>	Show passion and commitment in what we do
<i>Responsible</i>	We care for sustainability and act with honesty
<i>Integrity</i>	We trust and help each other and live our values
<i>Proactive</i>	Our performance exceeds expectations - "not just to be good, but to be the best"

In short, we do not only want to uphold our basic responsibilities to people and planet, but also setting the stage for long-term success by running a sustainable business towards business partners.

Yours sincerely,

Jesper Klausen, director and co-owner

Management commentary

Reflection of CSR milestones in 2017

Our CSR strategy is based on 4 corner stones (see also p8), supported by a large number of daily commitments and targets spanning our corporate social responsibility performance across the value chain. Our business increased in 2017 and the growth was achieved in a very dynamic, competitive and challenging environment, however, still respecting our integrity being a responsible supplier.

With our Corporate Social Responsibility Report we would like to inform our stakeholders in detail on our sustainability achievements. In this report, you will find key indicators and a selection of examples of the progress we have made with our corporate responsibility efforts in 2017.

Spectre has continuously worked towards pushing the social responsibility bar higher. Through every new customer requirement and in the process of recertification, social auditing, training activities and all the daily challenges, we gain experience and develop our company's knowhow and professionalism. And through anniversaries, celebrations and company events, we build layers on our company culture beyond the formalized requirements. Below is a small selection of some of the milestones reflecting 2017 in our company:

- ✓ In 2017, we celebrated Spectre's 70th anniversary as a company, Spectre's 25th anniversary in Latvia and Spectre Latvia's 15th anniversary.

Fig 1: Spectre celebrative moments from Latvia and Vietnam



- ✓ We also celebrated the official inauguration of our new factory in Vietnam. We are proud to have established a modern garment factory with focus on a good, physical working environment, fully air conditioned and with LED lighting, double-glazed windows and lightly insulated walls to reduce the heating impact from the sun. There are height adjustable chairs and machines to support and ergonomically correct working position and the fire safety and fire protection system lives up to the latest legislative requirements.

Finally, we are most pleased with the fact that we did not face one single work accident during the entire construction process. This result was achieved through co-operation with a professional construction company and a clear attitude towards the importance of a secure construction site

Management commentary



- ✓ Spectre, for the 2nd consecutive year has received the 1st place of Corporate Social Responsibility Award of Fair Wear Foundation member and our esteemed customer Schöffel. With the best overall results of the season, Spectre received also the "Supplier of the year award". Recognitions like these, make our efforts worth striving for and our organization becomes motivated to create even better results in the future.

Fig 2: Schöffel owner and management representatives visit in Vietnam (from Schöffel CSR report 2017, p20*)

Director Peter Schöffel and Jesper Clausen, member of the Executive Board and Head of Procurement and Logistics, travelled to Vietnam to visit some important partners on site. "Our presence on-site helps us to support the work of the employees. Good personal interaction is important for transparency and for maintaining our principles, which we also pursue as a member of the Fair Wear Foundation. Even though these visits are time-consuming and exhausting, they are an important part of our communications strategy with our producers," says Peter Schöffel, explaining the reasoning behind his trips. "We have a responsibility not only towards our employees in Schleswig-Holstein, but also towards those working in our production facilities. And we are committed to this task."

As a member of the Fair Wear Foundation, Schöffel expects the guidelines for fair working conditions to be fulfilled (see p. 26). Problems revealed by audits are the first step towards starting open communication with the production partner and working together to find a solution. "Our aim is for lasting partnerships. Only by working together with our producers can we achieve our social goals and this is what we want," explains Jesper Clausen. "We are not interested in simply ending a partnership if sustainable objectives have not been fulfilled for us, it's much more a question of ensuring the development of operators in a sustainable direction and supporting them as they achieve this. That's the only way of changing things."

Schöffel has been a committed member of the Fair Wear Foundation since 2011 and, since then, has consistently pursued its goal of guaranteeing fair production conditions for its partners. For example, in the main production country, Vietnam, its employees are dedicated to supporting compliance with guidelines on site all year round and this presence is set to be further extended. "High-quality products are not just about materials and craftsmanship, high quality also means fair and that's why, as the owner, I am always happy to accept every trip," Peter Schöffel concludes.

WHEN THE JOURNEY IS THE DESTINATION STRONG PARTNERSHIPS FOR FAIR PRODUCTION

It's October 2017, Peter Schöffel shakes Jesper Clausen's hand and says goodbye. The two of them have just spent two full days of analysis and negotiations. The result: Schöffel has boosted its local presence so that it can provide even more support for social standards in its production facilities.

The majority of technical, functional clothing and its components now comes from Asia. Over the past few decades, this is where technical expertise in high-quality textile processing as well as converged and production takes place under economically viable conditions. Profitable business is vital for the success of a company and therefore also for its employees. The significance of this extends further still: after all, only economically successful companies will have enough room to invest in their employees and their working conditions.

goals into reality. Schöffel is active in Asia with 26 sites in 4 countries and works alongside its local production partners. At Schöffel, the task of ensuring fair working conditions at production sites is a matter for the boss. The Managing Director has at least two trips in his diary every year to visit partners. But it's not just Peter Schöffel who makes on-site visits. Schöffel employees from the purchasing department and from the QA/CSR team are also on-site. They work closely with the production partners to ensure that the company's social goals are achieved.

SCHÖFFEL HONOURS ITS DANISH PARTNER WITH THE CSR AWARD

In 2018, Schöffel developed the "Garment Supplier Evaluation" producer assessment system. This assesses the performance of production partners in terms of cooperation, reliable delivery, product quality, pricing and product development. The system also reveals the potential for making improvements in the individual facilities.

The producer with the best results for the season receives the "Supplier of the year award" from Schöffel. In addition, a special "CSR AWARD" honours performance with regard to work results, following up complaints and CSR documentation, as well as transparency, communication and cooperation.

In 2017, a Danish business partner called Spectre, which has production facilities in Lithuania and Vietnam, was presented with the "CSR Award". This was the second time in succession that the company had received the award. Schöffel rated the partner's active involvement in the continuous improvement of working conditions in its own factories as outstanding.

- ✓ All Spectre branches have successfully gone through the integrated ISO recertification process, confirming that already implemented environmental management system is functioning and have been improved during year 2017.

Management commentary

- ✓ Recertification of Spectre's Vietnam factories to the new version of SA8000:2014 standard in April. Among the most important added-value factors of Spectre's social responsibility efforts is our employee engagement and our Social Performance team and their increased awareness of the company's social responsibility activities., This has been achieved by awareness trainings that have taken place in all of Spectre's factories during 2017.
- ✓ In collaboration with our customers and Fair Wear Foundation, Workplace Education Programs for our employees were organized in our Vietnam factories;
- ✓ An important part of our compliance is our cooperation with suppliers and subcontractors to ensure that Spectre's values and standards are communicated throughout the value chain. This is achieved by conducting social audits and monitoring their compliance within the area of CSR, and not least, keeping an ongoing dialogue with our key business partners to align the expectations of the cooperation.

When visiting suppliers we are doing our own audits and together with the supplier's self-evaluation this forms an important part of our supplier compliance management program.

- ✓ Besides the celebration of our new factory in Vietnam, we were also happy to welcome 50 new colleagues in our two new sewing branches in Latvia during the autumn. Such milestones for Spectre remind us about the necessity to ensure a continuous, sustainable and safe working environment for our valuable employees. We expect the number of employees will increase further during 2018 to meet production demands.

Fig 3: New affiliate opening moments in Latvia



- ✓ During 2017 we organized – true to tradition – a number of social events in both Vietnam, Latvia and Denmark. The social events are partly based on local traditions, partly on company specific traditions. Most events include various competitions and often they include some sports or outdoor activities. The overall purpose is to strengthen social relations between employees. This can lead to higher

Management commentary

mutual respect and better interpersonal relations that help improving the working environment and the results achieved by the company branches

Fig 4: Spectre social events



Spectre's Got Talent, April 2017



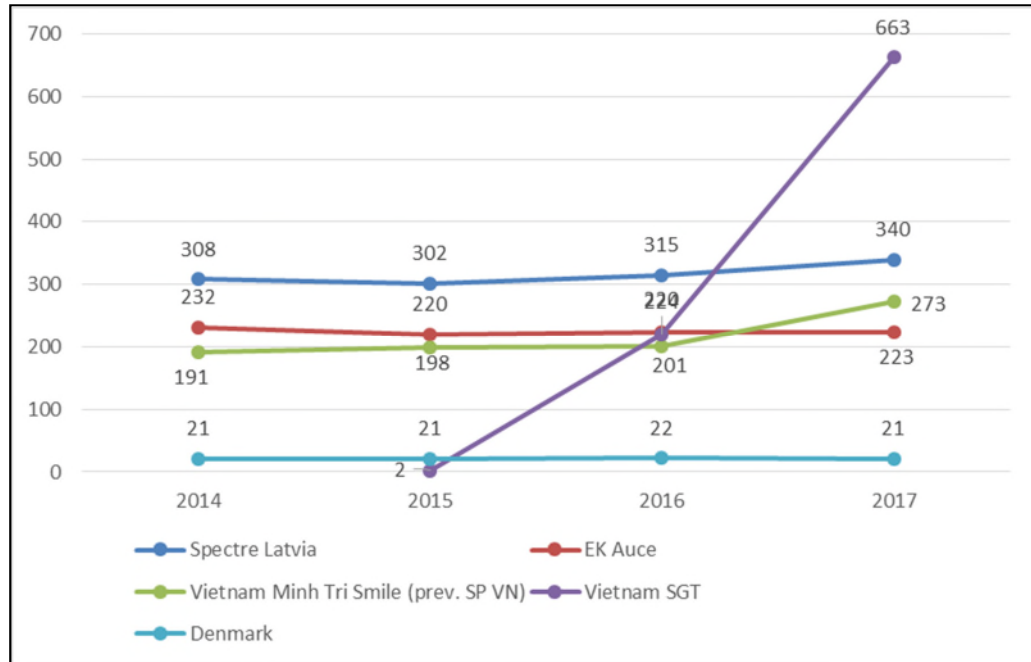
Team building, June 2017



Running event, May 2017

Management commentary

Fig 5: Spectre employee development (2014-2017)



As of end 2016, Spectre Vietnam was taken over 100% by our joint venture partner and the name was changed to Minh Tri Smile.

Spectre CSR general issues and focus in 2017

Seasonality

Latvia

Substantial gaps in our production in the 1st half of 2016 and 2017, followed by a heavy overloading of our production in the 2nd half of 2016 and 2017, have led to ongoing challenges balancing the work for our employees and it has caused delays of deliveries to our customers. The financial results in 2017 were negatively affected by severe delays of raw materials from various suppliers.

It has been a struggle to maintain socially stable working conditions and avoiding or reducing ethical risks in our production:

- ✓ The too pronounced seasonality lead to an increase of the employee turnover
- ✓ Avoiding excessive overtime. We have kept a constructive dialogue with employees in order to achieve a two-sided agreement about OT work and extra bonuses for honoring this effort
- ✓ Ensuring stable work for subcontractors, and monitoring and auditing subcontractors within social compliance in this period of high pressure with demands to maximize production output has been challenging. We are encouraging our subcontractors and suppliers to be assessed either via self-reported information or via social audits

Management commentary

Vietnam

The production in Vietnam has increased substantially during 2017 and as a follow we have employed 450 employees during the year. The increased production volume is mainly due to an increase of business with existing customers, and to a smaller extent due to orders moved from Latvia due to overloading (see above).

There are also challenges related to seasonality in Vietnam and the consequences are the risk of excessive OT and the additional use of air freight to meet the customers' delivery expectations. We have, however, not faced severe delays in raw material supplies and therefore our delivery performance has been good and there has been relatively little stress to meet the demands.

Focus

We will intensify our focus on:

- Streamlining production methods according to continuous improvement principles to maximize production output
- Being selective with subcontractors and establish a stable cooperation with the selected partners to offer additional production capacity that will help balancing supply and demand
- Ensuring a close cooperation with customers and suppliers regarding the seasonal production planning

Spectre's Business Model

We are striving to continuously follow all seven steps of the value chain connected with our business model (as defined below) to ensure our compliance and required governance within all CSR activities.

In a fast-paced world, we believe that sustainable supply chains are a big part of our success. Our approach to making our supply chains more sustainable can be seen as an infinite process and, like continuous improvement activities in general, there will always be a potential to improve things further. One of the goals of our supplier management is compliance with fundamental environmental and social standards, alongside high quality, delivery reliability, and competitive prices. To achieve this in full, we still need introducing relevant strategies, processes and guidelines and ensure the continuous improvement of these to prevent violations of supply chain standards. This remains an ambitious goal for the future.

Management commentary

Fig 6: Spectre’s Business Model



Spectre Group strategy aims to maximize our success, which goes hand in hand with respecting the interests of our employees, customers and shareholders, as well as those of the community. Our CSR strategy is an integrated part of the group strategy. All our CSR activities fall under the heading of responsible governance with an aim to perform beyond compliance and legal requirements, and offer better working conditions than the average standard in the countries in which we operate. Our CSR activities are in compliance with the nine core elements of the SA8000 standard and aligned with the United Nations Sustainable Development Goals (SDGs).

In 2015, the United Nations adopted the Sustainable Development Goals (SDGs), which are aimed at all countries and organizations across the globe. Spectre’s ambition is seeking to implement these targets in our overall CSR strategy.

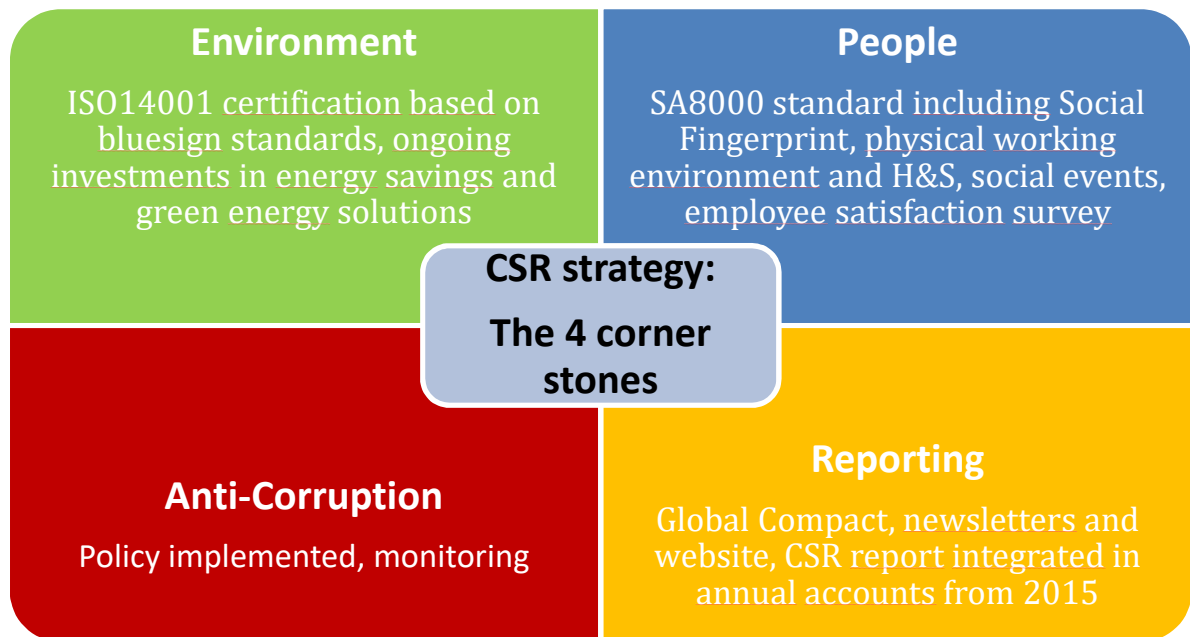
Fig.7: Selected United Nations Sustainable Development Goals (SDGs) of primary relevance for Spectre



Our CSR strategy

Management commentary

Fig.8: Spectre's CSR strategy – The 4 corner stones



The 4 key elements of our CSR strategy are illustrated in the model above. Following sections will describe each of the 4 strategy elements.

1 Environment

As a manufacturing company, our activities have an impact on the environment: a "Spectre footprint on earth". We have identified two key focus areas are:

- ✓ Our solid waste generation and how to minimize and dispose of it
- ✓ Our energy consumption, how to minimize it and the effort to utilize energy sources with least impact on the environment.

The emissions and waste generated by our activities, and the materials we use in our production process might adversely affect the environment if not handled properly. To mitigate this impact, all our sites meet environmental regulations stated by our environmental management system ISO14001:2015. Intelligent environmental stewardship reduces resource use and lowers costs, and we are therefore keen to adapt our processes to new regulatory requirements.

Moreover, we strive to continuously minimize the environmental footprint of our products while also helping our customers achieving their own sustainability goals by working towards an environmental friendly production cycle.

We take responsibility for our production process and we seek reducing our impact on the environment as much as possible, which requires safe manufacturing techniques, high environmental standards and strict

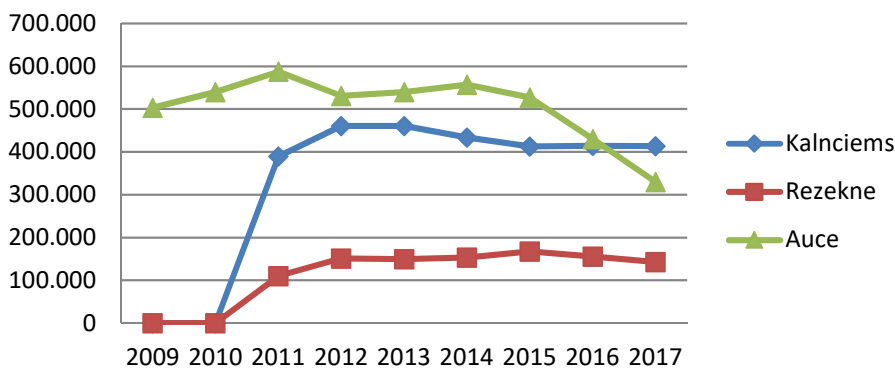
Management commentary

process management. We strive to set an example for ethical conduct and actively contribute to the communities we live in.

The charts below illustrate the development of our solid waste generation and our energy consumption:

Latvia

Fig. 9: Energy consumption by location in KWh, Latvia

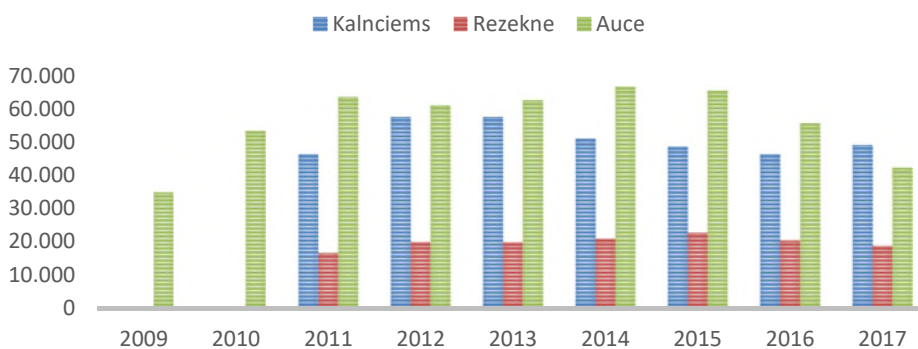


Implementation of ISO 14001 certificate in 2016 and managing environmental impact has given measurable impact and opportunity to save resources. All branches in Latvia achieved energy savings despite the fact that production capacity increased in 2017.

The energy target for 2017 to reduce electricity consumption by 5% in 2017 relative to one production minute- was achieved despite the fact that production struggled with over booking. This was achieved via clear company policies and careful acting by employees.

Already in 2016 we switched to green power in Auce when signing the contract for wind power. From 2018 we will switch to green power also for Spectre Latvia.

Fig. 10: Energy costs by location in EUR (costs without VAT), Latvia

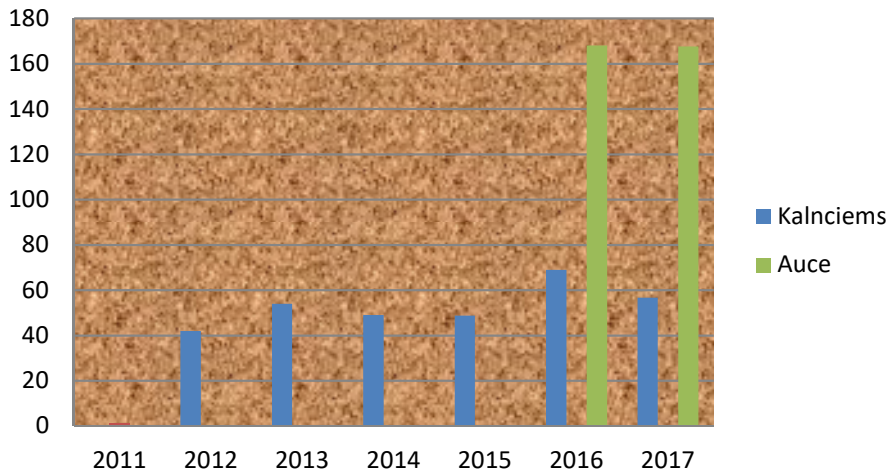


The key drivers for cost reductions were energy price reductions, milder winter in Latvia and green energy usage.

Energy consumption increase in Spectre Latvia was negatively impacted due to a generator break.

Management commentary

Fig 11: Pellets consumption by location in tonnes, Latvia

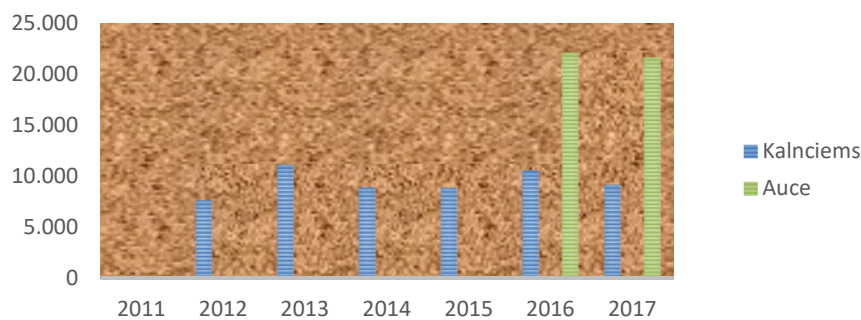


The main reason using pellets is it's environmentally-friendly profile and it helps facilitate the preservation of other natural resources.

The mild winter and full switch from coal to pellets, achieving more environmental friendly resource consumption was maintained also in 2017.

Additional advantages of using pellets for heating are the significantly lower prices compared to other fuel resources, simplicity and convenience.

Fig 12: Pellets costs by location in EUR, Latvia



Pellet as heating resource are used in Kalnciems and Auce only. The Rezekne and Auce sites, besides pellets, are consuming wood as illustrated below.

Management commentary

Fig 13: Wood consumption by location in m3, Latvia

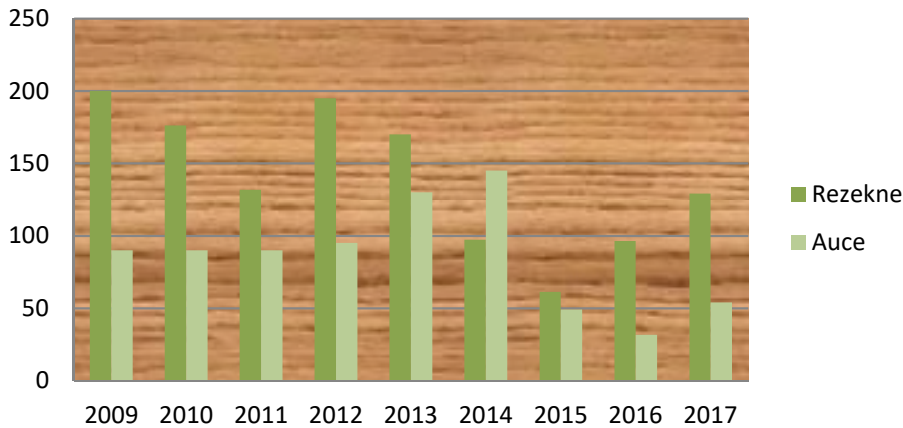
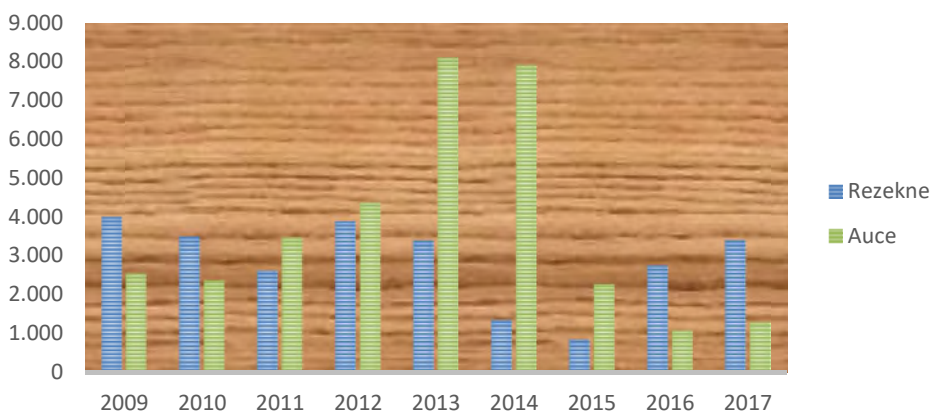


Fig. 14: Wood costs by location in EUR, Latvia



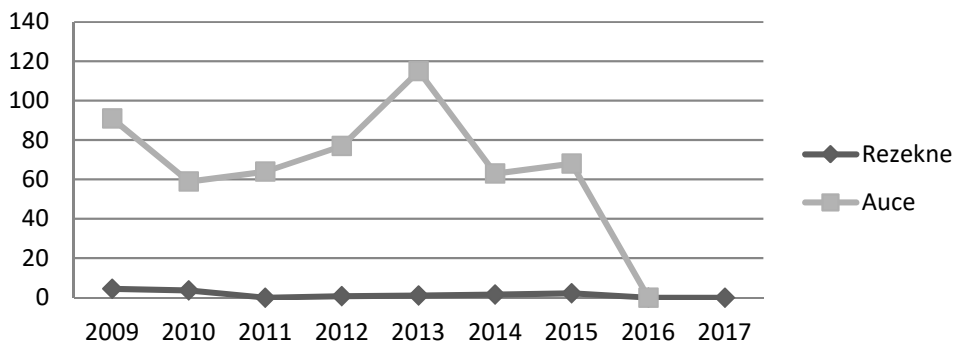
Wood as energy resource has been used only in two locations in Latvia

1) Spectre Latvia's Rezekne branch which is operated in rented premises with no opportunities to use more environmentally friendly resource;

2) EK Auce has switched heating resources from coal to wood and pellets in 2016 and step by step wood resources for heating is decreased and replaced by pellets.

Since coal is a nonrenewable and polluting energy source Spectre decided to phase out coal and replace with other, more sustainable heating resources in our production sites in Latvia with effect from end of 2015. Therefore, no coal was used in 2016 and 2017 and will no longer will be used.

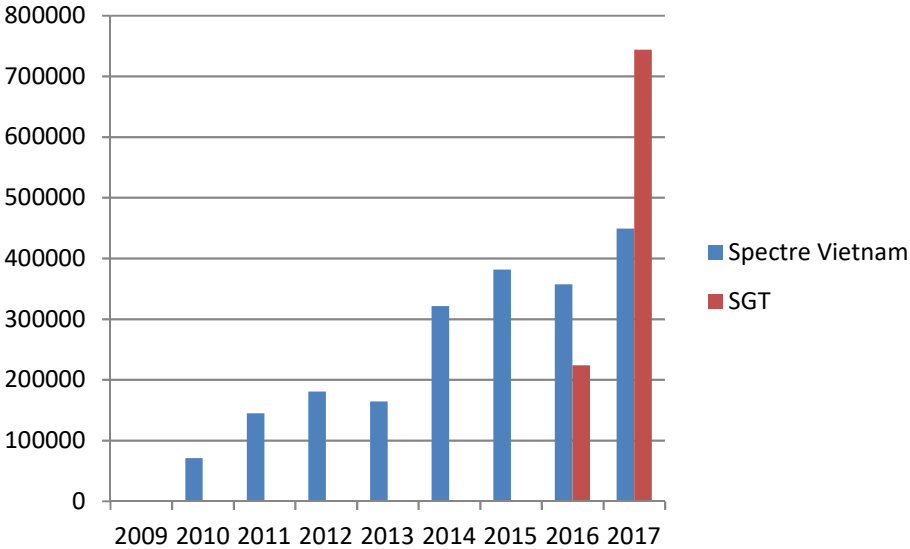
Fig. 15: Coal consumption by location in tones, Latvia



Management commentary

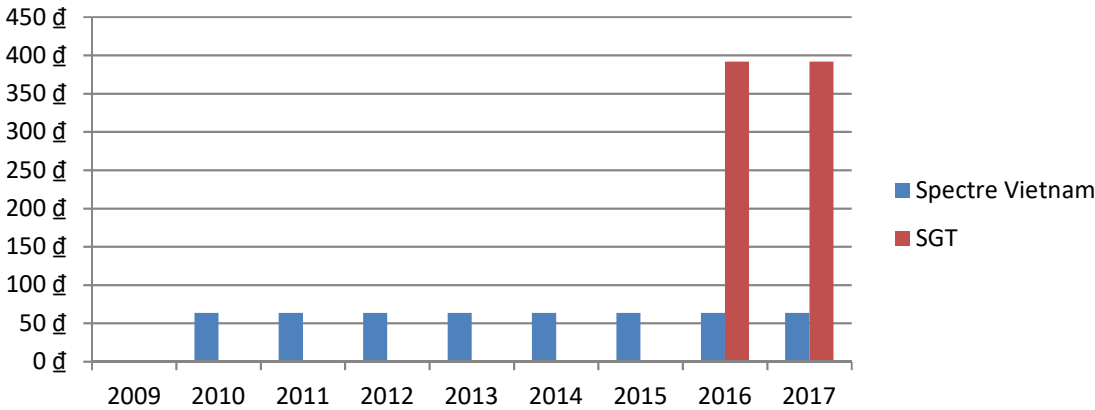
Vietnam

Fig 16: Energy consumption in Kwh, Vietnam



The opening of the new production site, Spectre Garment Technologies, in 2017 and the following increase of production output reflects the large increase in the energy consumption. Additionally, due to the factory being fully air conditioned, the energy consumption per produced unit has increased.

Fig. 17: Energy costs in MillVND



The electricity price in Vietnam is among the lowest level in the region of Southeast Asia, even compared with other countries with low income per capita, however, the price is planned to increase year by year due to the economic growth, increasing electricity demand and large investments planned in improvements of the power grids and power stations. Spectre’s strategy includes the switching to renewable energy, such as solar power or wind power but currently there are no such options available. We have been investigating the return on investment in our own solar panel solution but under the current conditions this is not a viable solution. We expect the best solution will be to enter a contract with the public power grid if/when they decide to offer green energy contracts in the future.

Management commentary

Environmental focus

At Spectre, our production strategy is based on an environmentally friendly approach and environmental protection has become an economic activity that needs to be taken into consideration through all processes from preproduction to packaging. Spectre's ambition is to achieve a better, more efficient and faster production process and to minimize the amount of waste we generate. The cutting operation generates the majority of the waste created in a garment production whereas the other production stages generate a minimum of waste.

Therefore, our key focus within the waste management is to measure how much waste we generate in total and per garment, and to keep searching for solutions for reducing the waste and for the gentle disposal of the waste or ideally the recycling or reusing of the waste.

Recycling or reusing are key components of modern waste reduction and it is a less harmful way to conserve the resources compared with disposal. The waste hierarchy is illustrated in below model:

Fig. 17: Waste recycling hierarchy



It is evident that our industry needs to recycle or reuse our waste to a larger degree in the future in order to function as a raw material for a variety of products.

Management commentary

Spectre is still keen on developing a solution for recycling our fabric waste. Preferably the fabric waste should be recycled into our own production; alternatively supplying other industries. We have been cooperating with a partner offering an innovative technology that allows the recycling of industrial waste – such as fabric waste from the garment cutting process – into new products. However, despite the promising perspectives of this technology, there are still some barriers to reach the desired result.

By implementing the environment management system ISO140001 we are sorting and monitoring our waste to find the best way of recycling or reusing it, ensuring a full lifecycle of the used materials. We are taking steps towards more efficient marker usage by optimizing the fabric utilization with the purpose of decreasing fabric waste.

2 People

Human Rights

There is often an assumption – and historically there are many examples backing this assumption – about the textile and garment industry being human right incompliant and being abusive including the violation of basic human rights such as freedom of association, health and safety protection, decent wages, decent working hours, no forced labor and no child labor. In order to protect our employees' basic human rights, Spectre is taking several steps which reduce risks and ensure we are compliant with the ten principles of the United Nations Global Compact as the Universal Declaration of Human Rights: the International Labour Organization's¹ Declaration on Fundamental Principles and Rights at Work:

1. **Social audits and trust in auditing process.** During 2017 Spectre's factories were audited 12 times by compliance of social accountability and legal standards (7 times in Latvia, 5 times in Vietnam). In doing so, we are monitoring and auditing processes to track ongoing developments. During the course of SA8000 or FWF on-site social audits, all non-conformances are recorded to indicate where points for improvements are needed and to describe where the site does not align with best practice or legal requirements, if any.

The audit frequency can be every 6, 12, or 36 months, and is determined by the number and type of non-conformances found in the previous audit. The certification audit process helps us pinpoint weak areas, identify opportunities for improvement and take suitable measures. All sites have been required to apply this standard. Each location responsible must provide a time-bound corrective action plan to address and remediate nonconformance, and then must confirm to the

¹ Mission and impact of the ILO:

The International Labor Organization (ILO) is devoted to promoting social justice and internationally recognized human and labor rights, pursuing its founding mission that social justice is essential to universal and lasting peace.

Only tripartite U.N. agency, the ILO brings together governments, employers and workers representatives of [187 member States](#), to set labor standards, develop policies and devise programmes promoting decent work for all women and men.

Today, the [ILO's Decent Work agenda](#) helps advance the economic and working conditions that give all workers, employers and governments a stake in lasting peace, prosperity and progress.

Management commentary

auditor that the remediation has effectively been addressed, if any, and nonconformance is closed.

Any audit report, internal or external, is submitted to group management: Internal reports are discussed and/or commented and signed by group management. External reports are read and commented by group management.

- 2. Transparent recruitment process and onboarding.** We strengthen our company by recruiting, developing and motivating talented employees. We ensure that (a) our employment relationships do not cause insecurity and social or economic vulnerability for our workers; (b) work is performed on the basis of a recognized and documented employment relationship, established in compliance with national legislation, custom or practice and international labor standards, whichever provides greater protection.

Our goal is to further drive diversity across our workforce and offer all our employees equal opportunities for advancement. In particular, we endeavor to promote greater opportunities for women, cultivate a diverse and international working environment including any nationality, culture, religion and age group, as well as different gender identities, different sexual orientations and an array of professional backgrounds.

E.g. within the framework of the European Employers' Day, there was organized an action "Open Doors Day for Enterprises with Disabilities" in which Spectre Latvia participated to facilitate the integration of unemployed with a disability into the labor market and to reduce stereotypes regarding the employment opportunities of persons with disabilities. This was done to demonstrate Spectre as a socially responsible employer giving equal opportunities for everyone.

We find that the active cooperation between management and workers, and/or their representatives is essential to develop and implement systems towards ensuring a safe and healthy work environment. This is achieved through the established Occupational Health and Safety Committees (SA8000), an active role of our Social Performance team and a CSR team in every factory. We want to partner with workers to prevent violations and empower the voice of employees. Thus, ensuring that a good communication culture exists, employees need to be kept informed of their rights.

- 3. Providing safe and healthy working conditions.** We take responsibility for the health and safety of our employees, doing everything in our power to safeguard them against work-related illnesses and accidents.

Experience shows that most workplace accidents can be prevented by proper conduct and regular social audits. Through our safety culture initiative, we are working to raise employee awareness of dangers in the workplace and provide them with rules of conduct that help keeping them safe.

Management commentary

All employees receive H&S training relevant for their work to prevent accidents and injuries. The training is mandatory and each employee must sign for the attendance. Frequent propagation and strict supervision are important to sustain a safe working environment.

Our approach to preventing accidents and promoting health is by seeking to promote the health of our employees and maintain their ability to perform over the long run, which requires a safe workplace. Local H&S managers ensure that each individual site adheres to occupational safety laws and regulations.

4. **Ensuring fair and equal pay.** A *living wage* provides for a family's basic needs, for food, housing, education and healthcare as well as some discretionary income. We have continued our work to monitor our own operations and ensuring our employee's wages are in compliance with local labor laws including a base pay that is not lower than country minimum wage and with bonus schemes and other additional payments that ensure a decent living wage. Spectre positively participated in a FWF member-initiated project in order to examine the garment cost increase if wages are increased to various living wage benchmarks in Vietnam as opposed to the minimum wages required by law, or the actual wage received in the company. All employees should have sufficient guaranteed fixed earnings to be above the living wage level.

We endeavor to reward the performance of all our employees and maintain a competitive edge in attracting qualified professionals, which necessitates commensurate compensation. At our company, compensation is based on the requirements of each position and employee performance. Reward structures at Spectre are gender-neutral and based on defined criteria such as job requirements, performance and stability.

5. **Participating in and supporting the local environment.** Spectre employees came up with initiatives to be socially responsible not only towards each other within the company but also support local communities. For example, employees from Spectre Latvia gathered and donated gifts to retired and socially unprotected district citizens in Kalnciems. Social commitment is an important part of Spectre corporate culture and it is an area that we will seek to systematize and cultivate further in the future.

Management commentary

Fig. 19: Social activity poster in Spectre Latvia



Communication, awareness building and engagement of employees

One of Spectre's core values is to ensure a respectful culture of communication in the factories. After all, an open dialogue between employees and the factory management forms the basis for working together on constantly improving working conditions.

We keep our employees up to date and encourage information exchange through a number of formats tailored to specific target groups within the company with the purpose of maintaining an effective grievance system and seeking for better understanding from employees. Our objective is that any employee feels like an important part of the team with equal rights to express their concerns or suggestions using different communication channels.

So far, the most frequent and effective ways to receive complaints, exchange feedback or suggestions are as follows:

- ✓ Open dialogue between the management representative, worker representative and trade union representatives
- ✓ Face-to-face talk to HRA Manager and/or plant manager
- ✓ Written complaints submitted to the HR or CSR team
- ✓ Internal electronic data base with opportunities to follow status of grievance or suggestions. In addition to these formats, a variety of information boards around the factories are also available for publishing and exchanging information on social topics
- ✓ Hardly ever, complaint letters are received in the physical complaint boxes which we attribute to the good, overall dialogue between management and employees

Management commentary

Engaged and curious employees are key to our ability to innovate and produce and to service our customers and are therefore also our key to success. We need a corporate culture that broadens the knowledge base of our employees, one that creates exciting opportunities and motivates them to take a proactive role in shaping the development of our company. Candid feedback from every individual helps showing us where we have room for further improvement.

To make people connected beyond traditional work relationships, we often organize activities such as team building, various parties, and participation in local community events as running events or city celebrations. In each country of our presence, we follow and support local traditions and festivals.

Fig. 20: Spectre employees at social events



3 Anti-corruption and bribery

Understanding and minimizing the impacts of our operations we work to mitigate the ethical, financial and legal risks of our business activities, thereby ensuring our social as well as our legal license to operate. To this end, we have put comprehensive structures and systems in place to ensure compliance with legal requirements, along with ethical and social standards.

Management commentary

It is Spectre's policy to conduct all our business in an honest and ethical manner. We have a zero-tolerance approach to bribery and corruption and we remain bound to the UK Bribery Act and the national legislations of the countries in which we operate.

Bribery and corruption are punishable for individuals and if Spectre is found to have taken part in corruption we could face an unlimited fine and face damage to our reputation. We therefore take our legal responsibilities very seriously.

To address the risks, we have taken the following steps, when introducing our anti-corruption policy back in 2014:

- Formulated and implemented an anti-corruption and bribery policy
- Conducted a risk assessment
- Trained all managers and relevant staff in our anti-corruption policy

We have identified certain activities of particular, potential risk for our company:

- Plant management
- People management
- Import/export of goods including contact to customs authorities
- Supplier contacts and purchasing duties
- Quality audits
- Social audits
- Financial audits
- Payments of invoices
- Payments and contacts with tax authorities
- Salary payments
- Etc.

Therefore, employees working within above areas have been trained in and informed about the company policies within anti-corruption and bribery.

We have had zero cases of bribery and/or corruption. However, we operate in countries with moderate to high risk of corruption, according to information taken from Corruption Perception Index reports and we do not measure our success only by the number of actual cases but also on the number of employees being trained in our Anti-Corruption policy and the repetitive controlling ensuring that procedures are strictly followed.

4 Reporting

CSR is considered as important as our financial milestones and measures and therefore is included in our mandatory reporting. Communication and reporting on performance is a driver for change, externally as well as internally: We are fulfilling our obligations to account for how we address human rights impacts, we inform

Management commentary

stakeholders and we train our managers of company management style towards sustainable conduct of business. We consider these actions as a means to help building trust. It is increasingly acknowledged as a stimulus for internal development and it has positive impact on business decisions and outcomes.

We would like to be perceived as accessible to any stakeholder, partner, customer and organization we are working with. We want to allow people evaluating our performance on social activities, the status of the goals we set and positive impact created by our activities and decisions.

The communication channels we use to report are multiple e.g. as UN Global Compact participants we are required to communicate our progress on an annual basis. The UN Global compact Communication On Progress report for 2016 have been published in UN GC home page and is available for downloading for any interested stakeholder.

Further, we share external social audit reports with our customers, we inform our stake holders via electronic newsletters and our web page and we keep ongoing and open dialogue with our customers.

SA8000 update

- ✓ During 2017, two surveillance audits were conducted in the Latvia factories and two in the Vietnam factories. Internal audits were conducted including assessments and inspections of suppliers with regard to corporate responsibility. Additionally, self-assessment reports from suppliers and subcontractors were collected and maintained.
- ✓ Our newest production site, Spectre Garment Technologies, was certified beginning of 2017 according to the latest SA8000:2014 standard and certification audit results showed that in the newly build premises there were still lacking a few details to meet the demands, however, these improvements were done shortly after the auditing. Work is also required in the areas of avoiding excessive working hours for employees and on passing on information on the subject of freedom of association.
- ✓ Our former joint venture factory, Spectre Vietnam, has officially changed status of cooperation to subcontracting relationships with dedicated lines working for Spectre, however still ensuring full SA8000 standard compliance and certification requirements will be ensured and followed up on continuously basis.
- ✓ New employee representatives were elected in Spectre Latvia, Rezekne branch, and to ensure the empowering of the employee representative role we now include local employee representatives in our decision-making processes, training processes and grievance processes.

Management commentary

Closing the year of 2017 it is important to evaluate and make conclusions the CSR goals in 2017 and the progress achieved during the annual year. Below table shows the status of achieved results:

CSR goals and progress from 2017		
2017 goals	Status of progress	Comments
Review and update CSR strategy for next 3 years;	IN PROGRESS	To be presented group wide in Q2 2018
Improve training and capacity building across the organization in CSR matters;	DONE	
Zero critical non-conformities from external auditors	DONE	
Develop and improve management system of subcontractors and suppliers;	IN PROGRESS	
Improve social and ethical awareness of our employees through a continuous learning process;	DONE	Ongoing target to be achieved year by year
Designing and implementing bi-annual employee satisfaction surveys group wide;	POSTPONED	To be conducted in Q3 2018
Develop and maintain ISO140001 activities;	DONE	
Recertify Spectre Vietnam according to SA8000:2014 requirements;	DONE	
Foster Continuous Improvement across the Spectre group;	IN PROGRESS	
Recertify Spectre Vietnam according to SA8000:2014 requirements;	DONE	

CSR goals for 2018

With the aim to progressing and improve our CSR goals further, we strive to achieve further results for social and environmental impact during 2018:

- Reviewing and implementing the "Next-level" Spectre CSR strategy 2020-22
- Developing our management system for SA8000 and ISO140001 more criteria and data based
- Developing and implementing a concept for a comprehensive risk management system of supplier evaluation including a digital integration of the new supplier evaluation system
- Enroll and implement group absenteeism policy in all branches
- Quantify and visualize non-conformances (NC) and/or observation points related to external audits. Goal is zero NCs
- Certify new branches in Latvia according to SA8000 standard
- Renew and enroll Anti-Corruption policy in all branches
- Fully align Spectre CSR goals with UN Sustainable Development Goals
- Designing and implementing bi-annual employee satisfaction survey group wide (transferred from 2017)
- Investigate the relevance and measurability of the company's environmental footprint using the carbon footprint method

CSR report 2017 summary and what makes us proud

We will continue to work with focus on corporate social responsibility areas where we can drive the biggest change and support the UN Sustainable Development Goals. These goals guide us in our daily work and help defining how we interact with our customers and business partners.

Management commentary

Our efforts and hard work to create a company with a strong CSR strategy is successful and is recognized as a true value by our business partners. Furthermore, we want our employees to feel proud of working in a company with a strong sustainability profile – and to be part of the success – and we want to create an attractive working place for both existing employees and future job applicants. Sustainability and social commitment continuously remain an important part of Spectre's success.

We want to thank you, our entire team, for your efforts and a special thanks to all members of our internal SA8000 / ISO14001 / CSR teams. We look forward to taking the next important steps during 2018 and onwards!

Yours sincerely,

Jesper Klausen
Director, co-owner

Jacob Klausen
Director, co-owner

Events after the balance sheet date

No events of importance for the Company's financial situation have occurred after the end of the financial year. The first months of 2018 came out as expected. Our new ERP is running, the factory in Vietnam is developing as planned in terms of employees, productivity and production output, and the deliveries from Latvia are stabilizing although the productivity is still too low, but increasing.

Consolidated income statement for 2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK</u>
Gross profit		80.045.665	71.496.807
Staff costs	1	(66.219.914)	(56.323.583)
Depreciation, amortisation and impairment losses		(6.111.136)	(4.075.048)
Other operating expenses		(860.281)	(1.283.668)
Operating profit/loss		6.854.334	9.814.508
Other financial income		157.934	45.153
Other financial expenses		(3.742.374)	(2.811.326)
Profit/loss before tax		3.269.894	7.048.335
Tax on profit/loss for the year	2	801.902	(2.706.300)
Profit/loss for the year	3	4.071.796	4.342.035

Consolidated balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK</u>
Acquired intangible assets		5.301.467	4.221.421
Intangible assets	4	5.301.467	4.221.421
Land and buildings		27.869.103	14.986.014
Plant and machinery		20.201.302	15.490.151
Other fixtures and fittings, tools and equipment		1.853.849	2.385.632
Leasehold improvements		74.886	103.912
Property, plant and equipment in progress		383.105	13.205.159
Property, plant and equipment	5	50.382.245	46.170.868
Deposits		93.350	93.350
Fixed asset investments	6	93.350	93.350
Fixed assets		55.777.062	50.485.639
Raw materials and consumables		42.368.773	36.378.435
Work in progress		13.917.869	14.093.989
Manufactured goods and goods for resale		9.153.909	939.458
Prepayments for goods		1.331.241	0
Inventories		66.771.792	51.411.882
Trade receivables		24.567.635	37.526.216
Receivables from group enterprises		2.761.669	436.619
Deferred tax	7	1.148.000	0
Other receivables		5.427.872	3.802.568
Prepayments		657.123	1.759.396
Receivables		34.562.299	43.524.799
Other investments		82.976	82.976
Other investments		82.976	82.976
Cash		2.583.440	3.874.624
Current assets		104.000.507	98.894.281
Assets		159.777.569	149.379.920

Consolidated balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK</u>
Contributed capital		500.000	500.000
Reserve for development expenditure		0	2.686.792
Retained earnings		40.050.684	37.363.689
Equity attributable to the Parent's owners		40.550.684	40.550.481
Share of equity attributable to minority interests		350.140	431.276
Equity		40.900.824	40.981.757
Deferred tax	7	0	806.502
Provisions		0	806.502
Bank loans		39.677.954	27.015.000
Finance lease liabilities		6.212	397.293
Other payables		0	5.990.269
Non-current liabilities other than provisions	8	39.684.166	33.402.562
Current portion of long-term liabilities other than provisions	8	3.039.505	7.770.569
Bank loans		57.484.191	42.784.000
Prepayments received from customers		956.260	0
Trade payables		9.739.100	14.965.354
Income tax payable		507.005	530.364
Other payables		7.466.518	8.138.812
Current liabilities other than provisions		79.192.579	74.189.099
Liabilities other than provisions		118.876.745	107.591.661
Equity and liabilities		159.777.569	149.379.920
Assets charged and collateral	9		
Transactions with related parties	10		
Group relations	11		

Consolidated statement of changes in equity for 2017

	Contributed capital DKK	Reserve for development expenditure DKK	Retained earnings DKK	Share of equity attributable to minority interests DKK
Equity beginning of year	500.000	2.686.792	37.363.689	431.276
Exchange rate adjustments	0	0	(2.962.298)	0
Dissolution of revaluations	0	0	2.686.792	0
Value adjustments	0	0	(1.712.605)	0
Other entries on equity	0	0	0	(129.532)
Tax of entries on equity	0	0	651.706	0
Transfer to reserves	0	(2.686.792)	0	0
Profit/loss for the year	0	0	4.023.400	48.396
Equity end of year	500.000	0	40.050.684	350.140
				Total DKK
Equity beginning of year				40.981.757
Exchange rate adjustments				(2.962.298)
Dissolution of revaluations				2.686.792
Value adjustments				(1.712.605)
Other entries on equity				(129.532)
Tax of entries on equity				651.706
Transfer to reserves				(2.686.792)
Profit/loss for the year				4.071.796
Equity end of year				40.900.824

Notes to consolidated financial statements

	2017 DKK	2016 DKK
1. Staff costs		
Wages and salaries	56.035.410	51.592.621
Pension costs	883.078	909.128
Other social security costs	9.301.426	3.821.834
	66.219.914	56.323.583
Average number of employees	1.098	704
	2017 DKK	2016 DKK
2. Tax on profit/loss for the year		
Current tax	665.232	1.718.919
Change in deferred tax	(1.467.134)	987.381
	(801.902)	2.706.300
	2017 DKK	2016 DKK
3. Proposed distribution of profit/loss		
Retained earnings	4.023.400	4.276.305
Minority interests' share of profit/loss	48.396	65.730
	4.071.796	4.342.035
		Acquired intangible assets DKK
4. Intangible assets		
Cost beginning of year		7.062.215
Additions		2.479.467
Cost end of year		9.541.682
Amortisation and impairment losses beginning of year		(2.840.794)
Amortisation for the year		(1.399.421)
Amortisation and impairment losses end of year		(4.240.215)
Carrying amount end of year		5.301.467

Notes to consolidated financial statements

	Land and buildings DKK	Plant and machinery DKK	Other fixtures and fittings, tools and equipment DKK	Leasehold improve- ments DKK
5. Property, plant and equipment				
Cost beginning of year	20.859.123	36.145.880	7.035.083	1.640.447
Additions	14.040.607	7.380.261	677.828	50.949
Disposals	0	(68.173)	(988.729)	0
Cost end of year	34.899.730	43.457.968	6.724.182	1.691.396
Depreciation and impairment losses beginning of year	(5.873.109)	(20.655.729)	(4.649.451)	(1.536.535)
Depreciation for the year	(1.157.518)	(2.642.509)	(831.712)	(79.975)
Reversal regarding disposals	0	41.572	610.830	0
Depreciation and impairment losses end of year	(7.030.627)	(23.256.666)	(4.870.333)	(1.616.510)
Carrying amount end of year	27.869.103	20.201.302	1.853.849	74.886
				Property, plant and equipment in progress DKK
5. Property, plant and equipment				
Cost beginning of year				13.205.159
Additions				383.105
Disposals				(13.205.159)
Cost end of year				383.105
Depreciation and impairment losses beginning of year				0
Depreciation for the year				0
Depreciation and impairment losses end of year				0
Depreciation and impairment losses end of year				0
Carrying amount end of year				383.105

Notes to consolidated financial statements

	Deposits DKK
6. Fixed asset investments	
Cost beginning of year	93.350
Cost end of year	93.350
Carrying amount end of year	93.350

7. Deferred tax

The deferred tax asset consists mainly of the carryable loss. The company expect to be able to utilize the deficit in the future earnings within a shorter period of time, why it is included as an asset in the annual report.

	Due within 12 months 2017 DKK	Due within 12 months 2016 DKK	Due after more than 12 months 2017 DKK	Outstanding after 5 years DKK
8. Liabilities other than provisions				
Bank loans	2.833.333	7.770.570	39.677.954	10.833.000
Finance lease liabilities	206.172	0	6.212	0
	3.039.505	7.770.570	39.684.166	10.833.000

9. Assets charged and collateral

The group has provided security on a credit insurance policy for the parent company's debt to bank.

The group has entered into operating rent and lease agreements with an annual lease payment of DKK ('000) 75.

As security for account with bank, the group has issued a business charge of a nominal amount of DKK ('000) 24,000. The business charge includes assets which have a carrying amount at the balance sheet date of DKK ('000) 83,200.

10. Transactions with related parties

Only related party transactions not conducted on an arm's length basis are disclosed in the annual report.

No such transactions have been conducted in the financial year.

11. Group relations

Name and registered office of the Parent preparing consolidated financial statements for the smallest group:
Spectre Holding ApS, Orienvvej 1-3

Parent income statement for 2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK</u>
Gross profit		14.562.442	29.423.934
Staff costs	1	(13.367.814)	(13.649.381)
Depreciation, amortisation and impairment losses		(1.818.372)	(912.343)
Operating profit/loss		(623.744)	14.862.210
Income from investments in group enterprises		6.132.054	(4.370.384)
Other financial income from group enterprises		980.018	272.473
Other financial income		10.579	264.512
Other financial expenses		(3.066.220)	(4.070.850)
Profit/loss before tax		3.432.687	6.957.961
Tax on profit/loss for the year	2	590.713	(2.703.949)
Profit/loss for the year	3	4.023.400	4.254.012

Parent balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK</u>
Acquired intangible assets		5.095.157	4.000.176
Intangible assets	4	5.095.157	4.000.176
Land and buildings		307.816	307.816
Plant and machinery		615.722	538.857
Other fixtures and fittings, tools and equipment		191.232	862.471
Leasehold improvements		3.903	70.526
Property, plant and equipment	5	1.118.673	1.779.670
Investments in group enterprises		18.531.304	14.127.265
Receivables from group enterprises		18.575.888	16.779.566
Deposits		93.350	93.350
Fixed asset investments	6	37.200.542	31.000.181
Fixed assets		43.414.372	36.780.027
Raw materials and consumables		42.368.773	34.176.184
Work in progress		13.917.869	12.988.316
Manufactured goods and goods for resale		4.464.209	894.108
Inventories		60.750.851	48.058.608
Trade receivables		21.832.898	36.275.467
Receivables from group enterprises		10.236.010	7.224.042
Deferred tax	8	511.000	0
Other receivables		1.867.527	320.070
Prepayments	7	657.123	584.211
Receivables		35.104.558	44.403.790
Other investments		82.976	82.976
Other investments		82.976	82.976
Cash		22.595	65.966
Current assets		95.960.980	92.611.340
Assets		139.375.352	129.391.367

Parent balance sheet at 31.12.2017

	<u>Notes</u>	<u>2017 DKK</u>	<u>2016 DKK</u>
Contributed capital		500.000	500.000
Reserve for development expenditure		0	2.686.792
Retained earnings		40.050.684	36.990.092
Equity		40.550.684	40.176.884
Deferred tax	8	0	567.419
Provisions		0	567.419
Bank loans		24.166.668	27.014.769
Finance lease liabilities		6.212	397.305
Non-current liabilities other than provisions	9	24.172.880	27.412.074
Current portion of long-term liabilities other than provisions	9	3.039.505	3.385.223
Bank loans		57.484.191	42.784.363
Trade payables		7.750.591	11.832.635
Payables to group enterprises		4.577.099	449.869
Other payables		1.800.402	2.782.900
Current liabilities other than provisions		74.651.788	61.234.990
Liabilities other than provisions		98.824.668	88.647.064
Equity and liabilities		139.375.352	129.391.367
Contingent liabilities	10		
Assets charged and collateral	11		
Related parties with controlling interest	12		
Transactions with related parties	13		

Parent statement of changes in equity for 2017

	Contributed capital DKK	Reserve for development expenditure DKK	Retained earnings DKK	Total DKK
Equity beginning of year	500.000	2.686.792	36.990.092	40.176.884
Exchange rate adjustments	0	0	(2.962.298)	(2.962.298)
Dissolution of revaluations	0	0	2.686.792	2.686.792
Value adjustments	0	0	(1.339.008)	(1.339.008)
Tax of entries on equity	0	0	651.706	651.706
Transfer to reserves	0	(2.686.792)	0	(2.686.792)
Profit/loss for the year	0	0	4.023.400	4.023.400
Equity end of year	500.000	0	40.050.684	40.550.684

Notes to parent financial statements

	2017 DKK	2016 DKK
1. Staff costs		
Wages and salaries	12.033.816	12.187.823
Pension costs	883.078	909.128
Other social security costs	170.081	300.530
Other staff costs	280.839	251.900
	13.367.814	13.649.381
Average number of employees	22	22
	Remunera- tion of manage- ment 2017 DKK	Remunera- tion of manage- ment 2016 DKK
Total amount for management categories	4.251.367	4.204.764
	4.251.367	4.204.764
	2017 DKK	2016 DKK
2. Tax on profit/loss for the year		
Current tax	0	2.163.304
Change in deferred tax	(590.713)	540.645
	(590.713)	2.703.949
	2017 DKK	2016 DKK
3. Proposed distribution of profit/loss		
Retained earnings	4.023.400	4.254.012
	4.023.400	4.254.012

Notes to parent financial statements

	Acquired intangible assets DKK			
4. Intangible assets				
Cost beginning of year	6.362.185			
Additions	2.424.685			
Cost end of year	8.786.870			
Amortisation and impairment losses beginning of year	(2.362.009)			
Amortisation for the year	(1.329.704)			
Amortisation and impairment losses end of year	(3.691.713)			
Carrying amount end of year	5.095.157			
	Land and buildings DKK	Plant and machinery DKK	Other fixtures and fittings, tools and equipment DKK	Leasehold improve- ments DKK
5. Property, plant and equipment				
Cost beginning of year	307.816	12.418.941	2.289.014	1.601.363
Additions	0	205.570	0	0
Disposals	0	0	(914.712)	0
Cost end of year	307.816	12.624.511	1.374.302	1.601.363
Depreciation and impairment losses beginning of year	0	(11.880.084)	(1.426.543)	(1.530.837)
Depreciation for the year	0	(128.705)	(293.340)	(66.623)
Reversal regarding disposals	0	0	536.813	0
Depreciation and impairment losses end of year	0	(12.008.789)	(1.183.070)	(1.597.460)
Carrying amount end of year	307.816	615.722	191.232	3.903

Notes to parent financial statements

	Investments in group enterprises DKK	Receivables from group enterprises DKK	Deposits DKK
6. Fixed asset investments			
Cost beginning of year	20.409.687	16.779.566	93.350
Additions	3.722.450	1.796.322	0
Cost end of year	24.132.137	18.575.888	93.350
Revaluations beginning of year	(6.282.422)	0	0
Adjustments on equity	(999.889)	0	0
Share of profit/loss for the year	5.495.054	0	0
Dividend	(3.813.576)	0	0
Revaluations end of year	(5.600.833)	0	0
Carrying amount end of year	18.531.304	18.575.888	93.350

A specification of investments in subsidiaries is evident from the notes to the consolidated financial statements.

7. Prepayments

Prepayments is subscriptions etc.

8. Deferred tax

The deferred tax asset consists mainly of the carryable loss. The company expect to be able to utilize the deficit in the future earnings within a shorter period of time, why it is included as an asset in the annual report.

	Due within 12 months 2017 DKK	Due within 12 months 2016 DKK	Due after more than 12 months 2017 DKK	Outstanding after 5 years DKK
9. Liabilities other than provisions				
Bank loans	2.833.333	3.000.000	24.166.668	10.833.000
Finance lease liabilities	206.172	385.223	6.212	0
	3.039.505	3.385.223	24.172.880	10.833.000

10. Contingent liabilities

The Entity participates in a Danish joint taxation arrangement where Spectre Holding ApS serves as the administration company. According to the joint taxation provisions of the Danish Corporation Tax Act, the Entity is therefore liable for income taxes etc for the jointly taxed entities. The jointly taxed entities' total

Notes to parent financial statements

known net liability under the joint taxation arrangement is disclosed in the administration company's financial statements.

11. Assets charged and collateral

The company has provided security on a credit insurance policy for the parent company's debt to bank.

Spectre A/S has issued a guarantee in relation to Spectre Holding ApS for the company's debt to bank. The guarantee includes all accounts with the bank.

The company has entered into operating rent and lease agreements with an annual lease payment of DKK ('000) 75.

As security for account with bank, the company has issued a business charge of a nominal amount of DKK ('000) 24,000. The business charge includes assets which have a carrying amount at the balance sheet date of DKK ('000) 83,200.

12. Related parties with controlling interest

Jacob Lundhøj Stubkjær Klausen, Ravensbjerg Krat 17, Gjellerup, 7400 Herning, who is a chief executive.

Jesper Lundhøj Stubkjær Klausen, Else Alfelts Vej 20, 7430 Ikast, who is a chief executive.

Kenneth Bach Pedersen, Strandvejen 25, 7800 Skive, who is a chief executive.

13. Transactions with related parties

Only related party transactions not conducted on an arm's length basis are disclosed in the annual report.

No such transactions have been conducted in the financial year

Accounting policies

Reporting class

This annual report has been presented in accordance with the provisions of the Danish Financial Statements Act governing reporting class C enterprises (medium).

The accounting policies applied to these consolidated financial statements and parent financial statements are consistent with those applied last year.

Consolidated financial statements

The consolidated financial statements comprise the Parent and the group enterprises (subsidiaries) that are controlled by the Parent. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of the Parent and its subsidiaries. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Subsidiaries' financial statement items are recognised in full in the consolidated financial statements. Minority interests' proportionate share of profit or loss is presented as a separate item in Management's proposal for distribution of profit or loss, and their share of subsidiaries' net assets is presented as a separate item in group equity.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the acquisition date, with net assets having been calculated at fair value.

Income statement

Gross profit or loss

Gross profit or loss comprises revenue, changes in inventories of finished goods and work in progress, own work capitalised, other operating income, cost of raw materials and consumables and external expenses.

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised in the income statement when delivery is made and risk has passed to the buyer. Revenue from the sale of services is recognised in the income statement when delivery is made to the buyer. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Own work capitalised

Own work capitalised comprises staff costs and other in-house costs incurred in the financial year and recognised in cost for proprietary intangible assets and property, plant and equipment.

Accounting policies

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Cost of sales

Cost of sales comprises goods consumed in the financial year measured at cost, adjusted for ordinary inventory writedowns.

Other external expenses

Other external expenses include expenses relating to the Entity's ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Property costs

Property costs include costs incurred to operate the Entity's properties in the financial year, including repair and maintenance costs, property tax and electricity, water and heating, which are not charged directly from the lessee.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses relating to property, plant and equipment and intangible assets comprise depreciation, amortisation and impairment losses for the financial year, calculated on the basis of the residual values and useful lives of the individual assets and impairment testing as well as gains and losses from the sale of intangible assets as well as property, plant and equipment.

Other operating expenses

Other operating expenses comprise expenses of a secondary nature as viewed in relation to the Entity's primary activities.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Accounting policies

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, net capital or exchange losses on securities, payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

Balance sheet

Intellectual property rights etc

Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and prepayments for intangible assets.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

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

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Buildings	50 years
Plant and machinery	3-8 years
Other fixtures and fittings, tools and equipment	3-8 years
Leasehold improvements	3-8 years

Estimated useful lives and residual values are reassessed annually.

Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value.

Accounting policies

Group enterprises with negative equity value are measured at DKK 0. Any receivables from these enterprises are written down to net realisable value based on a specific assessment. If the Parent has a legal or constructive obligation to cover the liabilities of the relevant enterprise, and it is probable that such obligation is imminent, a provision is recognised that is measured at present value of the costs deemed necessary to incur to settle the obligation.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for net revaluation according to the equity method under equity.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount

Inventories

Inventories are measured at the lower of cost using the standard cost method and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less writedowns for bad and doubtful debts.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and the tax-based value of assets and liabilities, for which the tax-based value is calculated based on the planned use of each asset or the planned settlement of each liability.

Deferred tax assets, including the tax base of tax loss carry forwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Other investments

Other current asset investments comprise listed securities measured at fair value (market price) at the balance sheet date and unlisted investments measured at the lower of cost and net realisable value.

Accounting policies

Cash

Cash comprises cash in hand and bank deposits.

Finance lease liabilities

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities other than provisions, and, at the time of inception of the lease, measured at the present value of future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

Operating leases

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Prepayments received from customers

Prepayments received from customers comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed.

Income tax receivable or payable

Current tax receivable or payable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Cash flow statement

Referring to section 86 (4) of the Danish Financial Statements Act, no cashflow statement have been prepared.