TCM
Group

TCM Group A/S

(Formerly Rotavonni Holding ApS)
Skautrupvej 16
DK-7500 Holstebro
Denmark
Business Registration No 37291269

Annual report for the period 9 December 2015 – 31 December 2016

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Company details

Company

TCM Group A/S
Business Registration No: 37 29 12 69
Registered in: Holstebro, Denmark

Phone: +45 97435200
Internet: www.tcmgroup.dk
E-mail: post@tcmgroup.dk

Board of Directors

Sanna Mari Suvanto-Harsaae
Kristian Carlsson Kemppinen
Erik Albert Ingemarsson
Anders Tormod Skole-Sørensen
Peter Liebert Jelkeby

Executive Management

Ole Lund Andersen, CEO
Mogens Elbrønd Pedersen, CFO
Karsten Rydder Pedersen, COO

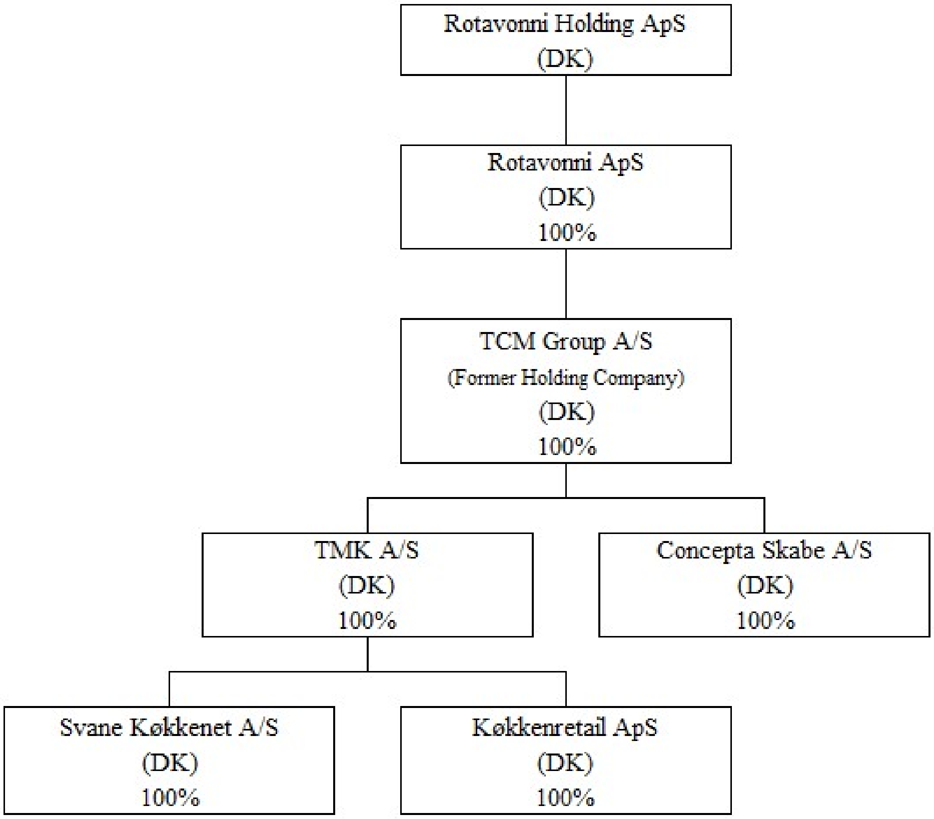
Company auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Management commentary

Group chart

As of 31 December 2016:

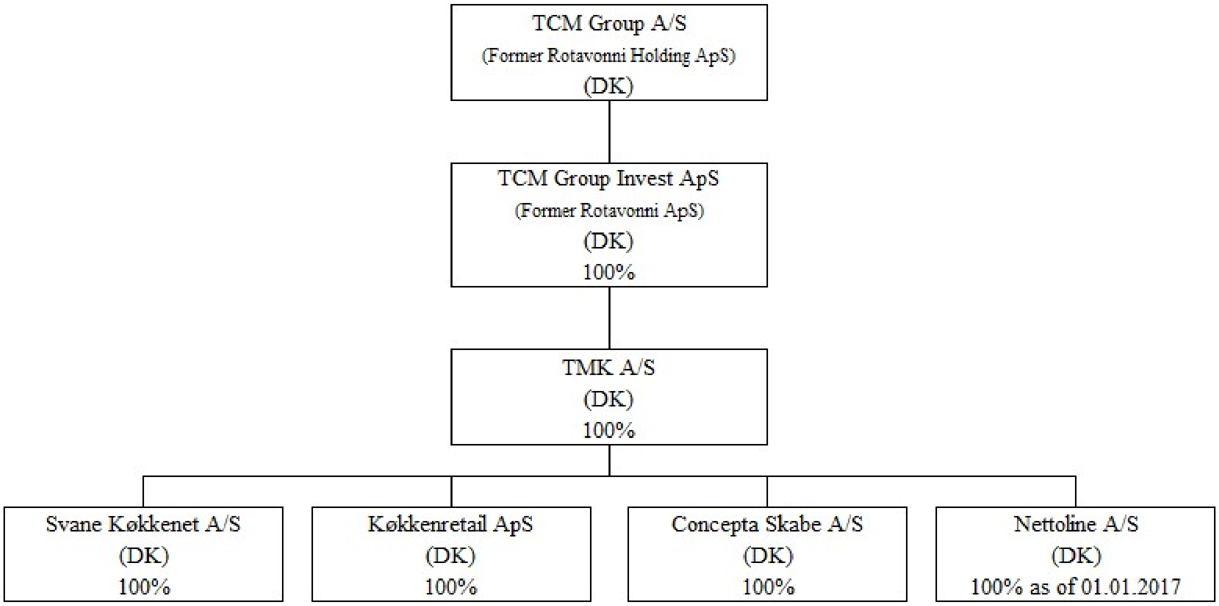

Rotavonni Holding ApS
(DK)
Rotavonni ApS
(DK)
100%
TCM Group A/S
(Former Holding Company)
(DK)
100%
TMK A/S
(DK)
100%
Concepta Skabe A/S
(DK)
100%
Svane Køkkenet A/S
(DK)
100%
Køkkenretail ApS
(DK)
100%

After the balance sheet date and to the approval date of this annual report, following have changed in the Group:

- TMK A/S and TCM Group A/S (Former Holding Company) have been merged with TMK A/S as the continuring company effective of 1 January 2017.
- Rotavonni Holding ApS and Rotavonni ApS have changed their names to TCM Group A/S and TCM Group Invest ApS respectively.
- Acquisition of Nettoline A/S as of 1 January 2017 (see note 28)

Management commentary (continued)

The new Group chart is specified below:


TCM Group A/S
(Former Rotavonni Holding ApS)
(DK)
TCM Group Invest ApS
(Former Rotavonni ApS)
(DK)
100%
TMK A/S
(DK)
100%
Svane Køkkenet A/S
(DK)
100%
Køkkenretail ApS
(DK)
100%
Concepta Skabe A/S
(DK)
100%
Nettoline A/S
(DK)
100% as of 01.01.2017

Management commentary (continued)

Key figures and ratios

DKK'000	2015/2016
Income statement	
Revenue	508.531
Gross profit	155.008
Earnings before interest, tax, depreciation and amortisation (EBITDA)	66.941
Adjusted EBITDA	85.638
Earnings before interest, tax and amortisation (EBITA)	60.529
Adjusted EBITA	79.226
Operating profit (EBIT)	54.229
Profit before tax	40.983
Net profit for the year	28.528
Balance sheet	
Total assets	795.848
Net working capital	(59.295)
Net interest-bearing debt (NIBD)	170.578
Equity	339.865
Cash Flow	
Free cash flow excl. acquisitions of operations	79.813
Capex excl. acquisitions	4.378
Cash conversion, %	108.1%
Margins	
Gross margin, %	30.5%
EBITDA margin, %	13.2%
EBITA margin, %	11.9%
Adjusted EBITA margin, %	15.6%
EBIT margin, %	10.7%
Other ratios	
Solvency ratio, %	42.7%
Leverage ratio	1.82
NWC ratio, %	(9.9)%
Capex ratio excl. acquisitions, %	0.9%
Share information	
Earnings per share before dilution, DKK	319.45
Earnings per share after dilution, DKK	316.13

Management commentary (continued)

Definitions

Key figures and financial ratios stated in the consolidated financial statements have been defined and calculated as stated below:

Key figures
Following key figures are not directly derived from the face of the income statement or balance sheet and as such are defined as follows:

Adjusted EBITDA:	Operating profit before non-recurring items (Adjusted EBIT) plus depreciation and amortization.
Adjusted EBITA:	Operating profit before non-recurring items (Adjusted EBIT) plus amortization.
Net interest-bearing debt:	Current and non-current interest-bearing loans and borrowings less interest-bearing receivables and cash and cash equivalents.
Net working capital:	The sum of inventories, trade receivables, other receivables and prepayments less the sum of prepayments from costumers, trade payables and other current liabilities.

Ratios:

Ratio	*Calculation formula*
Gross margin	$\frac{\text{Gross profit} * 100}{\text{Revenue}}$
EBITDA margin	$\frac{\text{EBITDA} * 100}{\text{Revenue}}$
EBITA margin	$\frac{\text{EBITA} * 100}{\text{Revenue}}$
Adjusted EBITA margin	$\frac{\text{Adjusted EBITA} * 100}{\text{Revenue}}$
EBIT margin	$\frac{\text{EBIT} * 100}{\text{Revenue}}$

Management commentary (continued)

Solvency ratio

$$\frac{\text{Equity * 100}}{\text{Balance sheet total}}$$

Leverage ratio

$$\frac{\text{Net interest-bearing debt}}{\text{12 months EBITDA (1)}}$$

NWC ratio

$$\frac{\text{Net working capital * 100}}{\text{12 months revenue (1)}}$$

Capex ratio excl. acquisitions

Capex ratio excluding acquisitions is calculated as investments in intangible and tangible assets (capex) divided with revenue. Capex is exclusive investments in connection with acquisitions.

Cash conversion ratio

Cash conversion ratio is calculated as adjusted EBITDA less the change in net working capital and capex excluding acquisitions divided by adjusted EBITDA. The ratio is for the last twelve months (1).

The definition and calculation formula for earnings per share before and after dilution can be found in note 21 in the consolidated financial statements.

(1) Adjustment to twelve months assumes that the acquisition of the Former TCM Group was effected on 1 January 2016.

Management commentary (continued)

Primary activity

On 1 March 2016, TCM Group A/S (former Rotavonni Holding ApS) acquired 100% of the share capital of TCM Group A/S (Former Holding Company) via TCM Group Invest ApS for a total purchase price of DKK 496.8 million. Transaction costs amounted to DKK 13 million and are recognized under non-recurring items. The Group did not have any operating activity before 1 March 2016 and thus the Group's activities commenced on 1 March 2016.

The primary activity of the Group is manufacturing and sales of kitchens. Sales to customers are conducted through franchise stores and a network of retailers primarily in Denmark and the rest of the Nordic region.

The Group owns the following brands: Tvis Køkkener® and Svane Køkkenet®. Furthermore, the Group sells non-branded Do-It-Yourself ("DIY") products to the largest Danish DIY chains.

Strategy

The strategic aim for the Group is to further expand the market share in the Danish market and to expand on selected export markets. Furthermore, the Group's profitability and cash flow must remain among the top tier of the kitchen industry. Besides a continued organic growth, the Group is considering attractive non-organic expansion options.

Development in activities and finances

Financial development and position

The Company was established on 9 December 2015 and, therefore, this is the first financial year which covers the period 9 December 2015 – 31 December 2016.

The positive development in the TCM Group activities has continued following the acquisition with increases in revenue as well as earnings compared to the period before the acquisition of the TCM Group (Former Holding Company). The revenue for the financial year 2015/2016 for the Group was DKK 508.5 million. Operating profit for the Group was DKK 54.2 million. The EBIT margin was 10.7%. Management considers the result for the year as very satisfactory.

Focus on design and quality as significant competition parameters continue, and resulted in introduction of a variety of new product lines during the year. These all contributed positively to the year's financial results.

The Group has not made dividend payments to shareholders for 2016 as the Annual General Meeting proposed that the entire profit for the financial year to be carried forward. The Group has net interest-bearing debt amounting to DKK 170.6 million including cash and cash equivalents of DKK 96.6 million as of 31 December 2016. The Group's solvency ratio is 42.7% as of 31 December 2016.

Management commentary (continued)

The number of Branded stores (pertaining to the Svane and Tvis brands) constitutes a key non-financial measure for Management. At the time of the acquisition (1 March 2016) of TCM Group A/S (Former Holding Company), there were 60 active Branded stores, while this number was 62 at the end of the financial year (31 December 2016).

Particular risks

Business risks

Internal control and Risk management systems regarding business risks

Management performs a yearly assessment of business risks. A follow-up process has been established with the purpose of describing and evaluating a variety of business risks within the Group and establishing of procedures to ensure risk mitigation. This assessment is discussed and evaluated by the Board of Directors once a year.

Beside this yearly assessment, the Board of Directors and the Executive Management have a continuous dialogue regarding significant circumstances in the Group, including those risks that could be considered to significantly impact the Group.

The risk management, including internal controls in the financial reporting process, is designed to effectively minimize the risk of errors and omissions.

The Executive Management is responsible for ensuring that risks are continuously identified, evaluated and treated in order to reduce the economic impact and / or likelihood of risks being realized.

Below are the main identified business risks as well as comments on the actions undertaken within the individual areas:

Market risks: The Group is exposed to a decline in new construction and home sales as well as certain fashion changes can lead to significant sales fluctuations within the individual product ranges. The Group is order-producing of customized products, and there is good flexibility in the workforce, which means that the Group can respond quickly to market demand changes.

Customer risks: The Group's risk relate primarily to the sales development of the stores, with sales being distributed through approx. 60 Branded stores, with typically one owner per store, which spread the operational risk. The debtor risk related to the stores represents the main financial risk and is closely monitored to minimize losses by primarily requiring appropriate collateral for current trading.

Production risks: The Group regularly carries out maintenance of the machinery, which is primarily carried out by our own maintenance department. Contracts have been concluded with suppliers to perform ad hoc tasks in connection with ongoing maintenance, including a hotline in case of shutdown, effectively reducing the risk of unintended shutdowns.

Management commentary (continued)

Raw material purchasing risks: It is the aim to have several different suppliers to the main raw materials, and the search for alternative suppliers to such raw materials is continuously on-going in order to improve conditions as well as reduce dependency on individual suppliers.

Risks related to IT: The Group has its own IT system, which is regularly maintained and updated. The Group focuses on general IT security and has among other things engaged with external experts to achieve a current level of security appropriate for the Group's type and size.

Risks related to pollution and work health security: The Group has a registration system for occupational injuries and incidents which may be considered to have caused an occupational injury. Optimizing working environment conditions and preventing both internal and external contamination are important focus areas in production, which are regularly discussed in, among other things, work councils and the work environment organization with participation from the daily management and employee representatives.

The Group is insured against significant damage to property, plant and equipment and is in close dialogue with authorities and insurance companies with a view to further improving the mitigation of risks related to, inter alia, fire and pollution. Production facilities are fully sprinkled and emphasis is placed on maintaining a high level of fire hygiene in the Group.

Financial risks

Liquidity risks

The Board of Directors continuously assesses whether the Group's capital structure is in line with the interests of the Group and its stakeholders. The overall goal is to secure a capital structure that supports long-term profitable growth.

The Group's financial risks are managed centrally as well as the Group's liquidity management, including capital formation and placement of surplus liquidity.

It is Management's assessment that the current capital structure provides the necessary flexibility to accelerate and support the Group's future strategy.

Credit risk

The Group's customer base comprises both professional customers and consumers. Credit management and payment terms are monitored for each customer group. The Group provides credit to professional customers whereas consumers usually do not get credit. Credit assessments are continuously performed on customers who make regular purchases. Credit insurance, bank guarantees and other securities are utilized for the different markets and customer categories.

Management commentary (continued)

Currency risks

The Group operates with a low risk profile in order that currency arise only on the basis of commercial conditions. The Group does not purchase significant amounts of raw materials outside the EUR zone, as well as more than 90% of revenue relates to Denmark, the rest of the Nordic region or the EUR zone and, therefore, foreign exchange risks are modest. Invoicing of sales is charged entirely in DKK.

Interest rate risk

It is Group policy to fully or partially hedge interest rate risks on loans when it is assessed that the interest payment can be hedged satisfactorily. Hedging is usually made by means of interest rate swaps where loans at floating interest rates are fully or partially converted to loans with a fixed interest rate.

Environmental performance

In connection with investments during the year, the greatest possible consideration has been given to the working and environmental conditions in order that at least the least possible energy is used per produced unit. The annual environmental control has not given rise to any comments.

Research and development activities

The Group continually adjusts, updates and enhances its product programs and thus incurs expenses in this connection. Costs associated with this are recognized in the income statement when incurred.

Corporate social responsibility

Since 2011, the TCM Group has been a member of the UN Global Compact, the world's largest corporate social responsibility initiative. It is an international initiative launched by the UN with the intention of involving private companies in solving some of the major social and environmental challenges that accompany globalization.

It has been chosen to disclose the statutory statement of social responsibility pursuant to section 99a on the Company's website, and can be found at the following link: https://www.tcmgroup.dk/en/responsibility.

Gender diversity

It is the Company’s goal to promote diversity, including achieving a sensible gender diversity in both the Board of Directors and the Executive Management based on a desire to strengthen the versatility, gathering competencies and making better decision-making processes.

Management commentary (continued)

In 2016, the composition of the Board of Directors was changed. Of the members elected by the general meeting, there were one woman and two men as of 31 December 2016. It is the Board's goal that its members should complement each other as far as age, background, nationality, gender, etc. are concerned. These conditions are assessed when new candidates are identified for the Board, and nomination of candidates will always be based on an assessment of candidates' competencies, their match with the needs of the Group and contributions to the Board's overall effectiveness. The Group has a goal that both genders are represented by at least 20%. As of 31 December 2016, the distribution is 33% women and 67% men, and the objective is thus met. In 2017, a new male Board member was elected.

Outlook

TCM Group estimates net sales for the financial year 2017 to be in the range DKK 780-800 million, adjusted EBITA in the range DKK 110-120 million and EBIT in the range DKK 73-84 million.

The full year guidance is based on the expectation that the Danish market will continue to develop positively in Q3-Q4 2017 compared to same quarters 2016.

Events after the balance sheet date

On 1 January, TCM Group A/S acquired 100% of the share capital in Nettoline A/S trough a wholly owned subsidiary. Reference is made to note 28. Company acquisitions (business combinations).

As of 28 April 2017, Anders Tormod Skole-Sørensen joined the board of directors and as of 15 September 2017, Peter Liebert Jelkeby joined the board of directors.

As of 15 September 2017, the company has changed its name and type to TCM Group A/S following a merger of the former TCM Group A/S and its subsidiary TMK A/S with TMK A/S as the continuing entity. Reference is made to the the group chart, page 2-3.

As of 2 October 2017, CFO Mogens Elbrønd Pedersen and COO Karsten Rydder Pedersen joined the executive management.

As of 3 October 2017, the site in Horsens has been sold with effect from 15 January 2018. The sale of the site will impact EBIT with a non-recurring loss of DKK 7 million and have a positive impact on Net Interest Bearing Debt of DKK 17 million.

Apart from the events recognized or disclosed in the annual report, no other events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Consolidated income statement for the period 9 December 2015 to 31 December 2016

	Note	2015/2016 DKK'000
Revenue	3	508.531
Cost of goods sold	4, 5, 7, 8	(353.523)
Gross profit		**155.008**
Selling expenses	4, 5, 7, 8	(50.253)
Administrative expenses	4, 5, 6, 7, 8	(31.863)
Other operating income		34
Operating profit before non-recurring items		**72.926**
Non-recurring items	9	(18.697)
Operating profit		**54.229**
Financial income	10	232
Financial expenses	10	(13.478)
Profit before tax		**40.983**
Tax on net profit for the period	11	(12.454)
Net profit for the period		**28.529**
Earnings per share before dilution, DKK	21	319.45
Earnings per share after dilution, DKK	21	316.13

Consolidated statement of comprehensive income for the period 9 December 2015 to 31 December 2016

	Note	2015/2016 DKK'000
Net profit for the period		28.529
Other comprehensive income		
Items that may be reclassified subsequent to profit or loss		
Value adjustments of cash-flow hedges before tax		(616)
Tax on value adjustments of cash-flow hedges		136
Other comprehensive income for the period		**(480)**
Total comprehensive income for the period		**28.048**

Consolidated balance sheet as of 31 December 2016

	Note	2016 DKK'000
ASSETS		
Intangible assets	12	
Goodwill		315.779
Brand		171.961
Other intangible assets		35.513
		523.253
Tangible assets	13	
Land and buildings		94.388
Tangible assets under construction and prepayments		1.680
Machinery and other technical equipment		9.002
Equipment, tools, fixtures and fittings		2.506
		107.576
Other non-current receivables	14	**686**
Total non-current assets		**631.515**
Inventories		
Raw materials and consumables		13.645
Products in progress		5.397
Finished products		10.048
	15	**29.090**
Current receivables		
Trade receivables	2	32.463
Other receivables		4.980
Prepaid expenses and accrued income	17	1.190
		38.633
Cash and cash equivalents	18	**96.610**
Total current assets		**164.333**
Total assets		**795.848**

Consolidated balance sheet as of 31 December 2016

	Note	2016 DKK'000
SHAREHOLDERS' EQUITY AND LIABILITIES		
Share capital	19, 21	100
Reserves in shareholders' equity	20	(480)
Retained earnings		340.245
Total shareholders' equity		**339.865**
Deferred tax	23	61.166
Mortgage loans	24	55.399
Bank loans	24	165.140
Total long-term liabilities		**281.705**
Mortgage loans	24	3.651
Bank loans	24	39.109
Prepayments from customers		5.198
Trade payables	2	84.770
Current tax liabilities		3.890
Derivative instruments		616
Other liabilities		36.696
Deferred income		349
Total short-term liabilities		**174.278**
Total shareholders' equity and liabilities		**795.848**

Change in consolidated shareholders' equity

	Share capital DKK'000	Value adjustments of Cash flow hedges after tax DKK'000	Retained earnings DKK'000	Total DKK'000
Opening balance 09.12.2015, incorporation	**50**	**0**	**0**	**50**
Net profit for the year	0	0	28.529	28.529
Other comprehensive income for the period	0	(480)	0	(480)
Total comprehensive income for the period	**0**	**(480)**	**28.529**	**28.048**
Share-based payments	0	0	2.131	2.131
Capital increase	50	0	309.586	309.636
Closing balance 31.12.2016	**100**	**(480)**	**340.246**	**339.865**

Consolidated cash flow statement for the period 9 December 2015 to 31 December 2016

	Note	2015/2016 DKK'000
Operating activities		
Operating profit		54.229
Depreciation/amortization/impairment		18.290
Share-based payments		2.131
Income tax paid		(14.626)
Change in inventories		4.326
Change in operating receivables		(5.569)
Change in operating liabilities		25.452
Cash flow from operating activities		**84.233**
Investing activities		
Investments in tangible assets		(3.734)
Investments in intangible assets		(669)
Investments in financial assets		(17)
Acquisition of operations	28	(479.449)
Cash flow from investing activities		**(483.869)**
Operating cash flow before acquisitions of operations		**79.813**
Operating cash flow after acquisitions of operations		**(399.636)**
Financing activities		
Interest paid		(12.296)
Proceeds from loans	26	202.942
Repayments of loans	26	(4.085)
Capital increase		309.686
Cash flow from financing activities		**496.247**
Cash flow for the period		**96.610**
Cash and cash equivalents at the beginning of the period		**0**
Cash flow for the period		96.610
Cash and cash equivalents at year-end		**96.610**

Notes to the consolidated financial statements

1. Accounting policies

Principles applied in the preparation of the consolidated financial statements

The consolidated financial statements are presented in accordance with the International Financial Reporting Standards as adopted by the EU ("IFRS") and additional requirements of the Danish Financial Statements Act.

It is the Group's first financial year with formation on 9 December 2015 and thus no comparative figures are presented in these consolidated financial statements.

Consolidated financial statements prepared in accordance with the Danish Financial Statements Act

Consolidated financial statements of the Group have also been prepared in accordance with the Danish Financial Statements Act, which have been approved by the General Meeting on 28 April 2017 and filed at the Danish Business Authority.

As it is the Group's first financial year, IFRS has been adopted by the Group as IFRS has always been the accounting framework, thus, the Group has not applied IFRS 1, *First-time Adoption of International Financial Reporting Standards*, in these consolidated financial statements.

The main differences between the Danish Financial Statements Act and IFRS as applied by the Group consist of recognition of expenses related to equity settled share based payments under IFRS whereas under the Danish Financial Statements Act such schemes have been disclosed in the notes, only, and reversal of amortization on goodwill and brand under Danish Financial Statements Act as goodwill and brand with an indefinite useful life are not amortized under IFRS, but tested at least annually for impairment. No impairment on goodwill or brand has been recorded in these consolidated financial statements prepared in accordance with IFRS.

Furthermore, in the business combination that took place on 1 March 2016, deferred tax has been recognized on identified intangible assets which were not previously recognized in the consolidated financial statements of the acquiree with corresponding impact on goodwill. In the consolidated financial statements prepared in accordance with the Danish Financial Statements Act, deferred tax on these intangible assets was not recognized separately from goodwill. Also compared to the consolidated financial statements prepared in accordance with the Danish Financial Statements Act certain reclassifications have been made, which mainly relate to presentation of remuneration of sales staff as selling expenses instead of administrative expenses and presentation of rebates to customers as a reduction in revenue instead of selling expenses.

General principles

Assets and liabilities are recognized at historic acquisition value (cost). Financial assets and liabilities measured at fair value comprise derivative instruments.

Notes to the consolidated financial statements

1. Accounting policies (continued)

The Parent Company's functional currency is Danish kroner (DKK), which is also the presentation currency for the Parent Company and Group. Accordingly, the consolidated financial statements are presented in DKK. All amounts are stated in DKK thousand, unless otherwise stated.

Defining materiality

The consolidated financial statements are a result of processing large numbers of transactions and aggregating those transactions into classes according to their nature or function. When aggregated, the transactions are presented in classes of similar items in the consolidated financial statements.

If a line item is not individually material, it is aggregated with other items of a similar nature in the consolidated financial statements or in the notes. There are substantial disclosure requirements according to IFRS. Management provides specific disclosures required by IFRS unless the information is considered immaterial to the economic decision-making of the users of these financial statements or not applicable.

Significant accounting estimates and judgements

Preparing the consolidated financial statements in accordance with IFRS requires that Management makes assessments, estimates and assumptions that affect the application of accounting policies and the recognized amounts of assets, liabilities, income and expenses. The actual outcome may differ from these estimates and assessments. Estimates and assumptions are regularly reviewed. Changes to estimates are recognized in the period in which the change is made if the change affects only that period, or in the period in which the change is made and future periods if the change affects both current periods and future periods. Assessments made by Management in the application of IFRS that have a material impact on the consolidated financial statements and estimates made that may lead to significant adjustments in the consolidated financial statements of future fiscal years are primarily the following:

Business combinations

On 1 March 2016, TCM Group A/S acquired 100% of the share capital of TCM Group A/S (Former Holding Company) via TCM Group Invest ApS. The acquisition has been accounted for as a business combination by applying the acquisition method. According to this method the acquired identifiable assets and assumed liabilities and contingent liabilities are recognised at their fair value on the acquisition date. The assessment of fair values includes valuation techniques where estimates are applied typically relate to determining the present value of uncertain future cash flows or assessing other events in which the outcome is uncertain at the date of acquisition. The most significant estimates are made on the valuation of intangible assets, including the value of the acquired brand, franchise set-up, order backlog, and land and buildings.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Impairment testing of goodwill

Goodwill is recognized at cost less any accumulated impairment. The Group regularly performs impairment tests of goodwill in accordance with the accounting policies. The assumptions and assessments made pertaining to expected cash flows and the discount rate in the form of weighted average cost of capital and are described in note 12, Intangible assets.

Valuation of inventory

The Group estimates the net realisable value at the amount at which inventories are expected to be sold. Inventories are written down to net realisable value when the cost of inventories is not estimated to be recoverable due to obsolescence, damage or declining selling prices. Estimates are used when accounting for or measuring inventory write-downs, and these estimates depend upon subjective and complex judgements about certain circumstances, taking into account fluctuations in prices, excess quantities, condition of the inventory, nature of the inventory, and the estimated variable costs necessary to make the sale.

New IFRS standards that have not yet been applied

A number of new or amended IFRS standards will come into effect in future fiscal years, and have not been applied in advance when preparing these consolidated financial statements.

IFRS 9 Financial Instruments will replace IAS 39 Financial Instruments: Recognition and Measurement. Through IFRS 9, the IASB has made a number of changes to the recognition of financial instruments. The amendments contain new requirements for recognition and measurement of financial instruments, an expected loss impairment model and simplified requirements for hedge accounting. IFRS 9 comes into effect on 1 January 2018.

The preliminary assessment is as follows: the amendments of recognition and measurement will not impact the consolidated financial statements; impairment of financial assets affects the recognition of bad debt losses, but since bad debt losses have been and are expected to be very small, the potential effect is expected to be immaterial; and that the new rules for hedge accounting are not expected to have any material effect on the recognition that currently takes place in the consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers entails that IFRS will contain a single, principles based model for all industries, which is to replace existing standards and statements on revenue. IFRS 15 comes into effect in 2018.

The preliminary assessment is that IFRS 15 will not have material effect on the consolidated financial statements. An investigation is under way, primarily into the extent to which project sales, including the installation of kitchens, may be affected. Such sales comprise only a small percentage of the Group's sales, meaning that the potential total effect of the Group's recognized sales is not assessed to be material. The potential impact regarding the recognition of variable income and other changes in policies in IFRS 15 is also preliminarily assessed to be immaterial.

Notes to the consolidated financial statements

1. Accounting policies (continued)

IFRS 16 Leases will replace IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease and related rules with application from 2019. The new standard entails for lessees that all leases that meet the definition in the standard of a lease are to be recognized as an asset and liability in the balance sheet, with depreciation and interest expense recognized in profit or loss. Agreements for primarily the lease of premises, which currently comprise operating leases (see note 8), are not recognized in the balance sheet as an asset and liability except for the accrued amounts arising in connection with the financial statements. Calculations of the effects, in terms of amounts, that capitalization of these leases may give rise to, have not yet been performed.

Other amendments to accounting policies with future application are not deemed to have any material effect on the consolidated financial statements.

Classification, etc.

Non-current assets essentially comprise amounts that are expected to be recovered more than 12 months after the balance sheet date. Current assets essentially comprise amounts that are expected to be recovered within the 12 months after the balance sheet date. Long-term liabilities comprise amounts that TCM Group A/S intends, and has an unconditional right, to pay later than 12 months after the closing date. Other liabilities comprise short-term liabilities.

Consolidation principles and business combinations

Subsidiaries

Subsidiaries are companies subject to the controlling influence of TCM Group A/S. A controlling influence entails the direct or indirect right to shape a company's financial or operational strategies in a bid to receive financial benefits. When assessing whether a controlling influence exists, potential voting shares that can be immediately utilized or converted must be taken into account.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that the controlling interest arises and are included in the consolidated financial statements until the date on which the controlling interest ceases.

If ownership is reduced to such an extent that controlling interests are lost, any remaining holdings are recognized at fair value and the change in value is recognized in profit or loss.

Transactions that are eliminated through consolidation

Intra-Group receivables and liabilities, income or expenses and unrealized gains or losses that arise from intra-Group transactions between Group companies, are eliminated in their entirety in the preparation of the consolidated financial statements.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Business combinations

Business combinations are recognized in accordance with the acquisition method. According to this method the acquired identifiable assets and assumed liabilities and contingent liabilities are recognised at their fair value on the acquisition date. The consideration is measured at fair value of the consideration transferred to the former owner of the acquiree. Acquisition related costs are recognized in profit or loss as incurred.

Goodwill in business combinations is calculated as the total of the consideration transferred, any non-controlling interests and fair value of previously owned participations (for step acquisitions) less the fair value of the subsidiary's identifiable assets and assumed liabilities. When the difference is negative, it is recognized directly in net profit for the year. Transaction costs arising from business combinations are recognized in profit or loss as incurred.

Contingent consideration in acquisitions is measured at fair value on both the acquisition date and continuously thereafter, with changes in value recognized in profit or loss.

For acquisitions of subsidiaries involving non-controlling interests, the Group recognizes net assets attributable to non-controlling interests either at fair value of all of the net assets except goodwill, or at fair value of all net assets including goodwill. The principle is decided individually for each acquisition.

Ownership in companies that grow through acquisitions on several occasions is recognized as step acquisitions. For step acquisitions that lead to a controlling interest, the previously acquired participations are remeasured according to the most recent acquisition and the arising gains or losses are recognized in profit or loss.

When controlling interests are achieved, changes in ownership are recognized as a reallocation of shareholders' equity between the parent company's owners and the non-controlling interest, without any remeasurement of the subsidiary's net assets.

Segment reporting

An operating segment is a part of the Group that conducts business activities from which it earns revenue and incurs expenses and for which independent financial information is available. Furthermore, the results of an operating segment are monitored by the company's chief operating decision-maker to evaluate them and to allocate resources to the operating segment. TCM Group A/S has only one operating segment that is selling kitchens, bathrooms and storage.

Revenue recognition

The Company recognizes revenue when the risk and benefit associated with the goods have been transferred to the customer in accordance with the terms of delivery. In cases where installation services are provided, revenue is recognized when the service has been completed. Sales are recognized net after VAT and discounts.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Non-recurring items

Non-recurring items are used in connection with the presentation of the profit or loss for the year to distinguish income and expenses that are exceptional and of a non-recurring nature from the consolidated operating profit for the year. Non-recurring items are assessed item by item and comprise restructuring costs, impairment charges and other items relating to fundamental reorganisations as well as gains or losses on major disposals in such connection. Furthermore, non-recurring items include transactions cost related to business combinations and amortization of identified items in a business combination not previously recognized and that are amortized fully within the first year after the acquisition, e.g. the fair value of an order backlog. Such amortization is non-recurring in nature.

Financial income and expenses

Financial income and expenses comprise interest income on bank balances and receivables, interest expense on loans, gain/loss on interest rate swaps as well as exchange-rate differences on financial items.

Interest income on receivables and interest expense on liabilities are calculated in accordance with the effective interest rate method. The effective interest rate is the interest rate that results in the present value of all future receipts and disbursements during the fixed-interest term becoming equal to the carrying amount of the receivable or liability. The calculation includes all fees paid or received by contractual parties that are part of the effective interest rate, meaning transaction costs and surplus and deficit values.

Tax

Tax costs for the year comprise current tax and deferred tax. Income taxes are recognized in profit or loss except when the underlying transaction is recognized in other comprehensive income or in shareholders’ equity, whereby the associated tax effects are recognized in other comprehensive income or in shareholders’ equity.

Current tax is tax that is to be paid or received regarding the current year, by applying the tax rates determined or that have been determined in principle on the balance sheet date. This item also includes adjustments to current tax attributable to previous periods.

Deferred tax is calculated according to the balance-sheet method on all temporary differences arising between recognized and fiscal values of assets and liabilities.

The tax effect attributable to tax loss carryforwards that could be utilized against future profits is capitalized as a deferred tax asset. This applies to both accumulated loss carryforwards at the acquisition date and losses arising thereafter.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Valuations take place at the tax rate effective at the balance sheet date. Deferred tax is recognized in the balance sheet as a non-current asset or long-term liability. The income tax liability is recognized as a current receivable or short-term liability.

If the actual outcome differs from the amounts first recognized, the differences will affect current tax and deferred tax in the period in which these calculations are made.

Tangible assets

Tangible assets are recognized at cost with deductions for depreciation and any impairment. Cost includes expenses that can be directly attributed to the acquisition. Costs for repairs, maintenance and any interest expenses are recognized as costs in profit or loss in the period in which they arise.

In the event that an asset's carrying amount exceeds its estimated recoverable amount, the asset is written down to its recoverable amount, which is charged to operating profit.

In the income statement, operating profit is charged with straight-line depreciation, which is calculated on the original cost less estimated residual value after useful life and is based on the estimated useful lives of the assets as follows:

Office equipment and vehicles	3–7 years
Buildings	36–40 years
Machinery and other technical equipment	3-7 years
Equipment, tools, fixtures and fittings	3-7 years

Land is not depreciated.

Expected useful lives and residual values are reviewed annually.

Intangible assets

Goodwill comprises the amount by which the cost of the acquired operation exceeds the established fair value of identifiable net assets, as recognized in the acquisition analysis. In connection with the acquisition of operations, goodwill is allocated to cash generating units. Since goodwill and brand have an indefinite useful life, it is not amortized. The indefinite useful life is justified by the long life of the brand, where there are no intention of changing the brand set-up. Thus, it is not possible to determine a useful life. Instead, goodwill and brand are subject to impairment testing either annually or when an indication of an impairment requirement arises. The carrying amount comprises the cost less any accumulated impairment losses. A description of the method and assumptions applied when conducting impairment tests is found in note 12 Intangible Assets.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Other intangible assets are recognized at cost less accumulated amortization and any impairment. It also includes capitalized costs for purchases and internal and external costs for the development of software for the Group's IT operations, patents and licenses. Amortization takes place according to the straight-line method based on the estimated useful life of the asset (three to five years).

Research and product development

Costs for product development are expensed immediately as and when they arise.

Product development within the Group is mainly in the form of design development and is conducted continuously to adapt to current style trends. This development is relatively fast, which is the reason that no portion of the costs for product development is recognized as an intangible asset. The Group does not carry out research and development in the true sense of such work, or to any significant extent.

Leases

Leases concerning tangible assets in which the Group essentially carries the same risks and enjoys the same benefits that direct ownership would entail are classified as financial leasing. Financial leases are recognized at the start of the leasing period at the lower of the leasing object's fair value and the present value of minimum leasing fees. Financial leases are recognized in the balance sheet as tangible assets and financial liabilities, respectively. Future leasing payments are divided between repayment of the liabilities and financial expenses whereby each accounting period is charged with an amount of interest corresponding to a fixed-interest rate on the liability recognized during the respective period. Leasing assets are depreciated according to the same principles that apply to other assets of the same type. Costs for leases are divided between depreciation and interest in the income statement.

Leasing of assets, where the lessor essentially remains the owner of the asset, is classified as operational leasing. Leasing fees are recognized on a straight-line basis during the leasing period. Operating leases are recognized in profit or loss as an operating expense. Leasing of cars and computers is normally treated as operational leasing. The value of these leases is not considered to be significant.

Inventories

Inventories comprise finished and semi-manufactured products and raw materials. Inventories are valued according to the first-in, first-out (FIFO) principle, at the lower of the cost and net sales value on the balance sheet date. The net sales value comprises the estimated sales value in the ongoing operations less selling expenses. Finished and semi-manufactured products are valued at manufacturing cost including raw materials, direct labour, other direct expenses and production related overheads based on normal production.

Inter-Group profits on inventory is eliminated in the consolidated financial statements.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Financial instruments

Financial instruments recognized in the balance sheet include cash and cash equivalents, loans receivable, trade receivable and derivative instruments on the asset side. On the liability side, there are accounts payable, loan liabilities and derivative instruments.

Recognition in and derecognition from the balance sheet

A financial asset or a financial liability is entered in the balance sheet when the company becomes a party in accordance with the contractual terms of the instrument. A receivable is recognized when the company has performed a service and a contractual payment obligation arises for the counterparty, even if an invoice has not been sent. Trade receivable are recognized in the balance sheet when an invoice has been sent. A liability is recognized when the counterparty has performed a service and a contractual payment obligation arises, even if an invoice has not been received. Accounts payable are recognized when an invoice has been received.

A financial asset is derecognized from the balance sheet when the rights resulting from the agreement have been realized, expire or the company loses control over them. The same applies to a part of a financial asset. A financial liability is derecognized from the balance sheet when the obligation resulting from the agreement has been realized or is extinguished in some other manner. The same applies to a part of a financial liability.

A financial asset and a financial liability may only be offset against each other and recognized net in the balance sheet if there is a legal right to offset the amounts and the intention is to settle the items in a net amount or to simultaneously sell the asset and settle the debt.

The acquisition or divestment of financial assets is recognized on the date of transaction for on demand transactions, which is the date when the company undertakes to acquire or sell the asset.

Measurement

Financial instruments that are not derivative instruments are initially recognized at cost corresponding to the instrument’s fair value plus transaction costs. Transaction costs for derivative instruments are immediately expensed. On initial recognition, a financial instrument is classified on the basis of the purpose underlying the acquisition of the instrument. This classification determines how the financial instrument is measured after initial recognition, in the manner described below. For the recognition of derivative instruments, refer to cash-flow hedges below.

Receivables and liabilities in foreign currencies

Receivables and liabilities in foreign currencies are valued at the balance sheet date rate. Exchange rate fluctuations pertaining to operating receivables and liabilities are recognized in operating profit, while exchange rate fluctuations pertaining to financial receivables and liabilities are recognized in net financial items.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Loans and trade receivable

The category of loans and trade receivable comprises financial assets that are not derivative instruments, that have fixed or fixable payments and that are not listed on an active market. For TCM Group A/S, this category includes long-term loans receivable recognized as financial assets and trade receivable and other receivables recognized as current assets. These assets are valued at amortized cost. Amortized cost is determined based on the effective rate calculated on the acquisition date. Loans and trade receivable are recognized at the amounts that are expected to be received, meaning less any provisions for decreases in value. Receivables with short maturities are not discounted.

Cash and cash equivalents

Cash and cash equivalents are defined as cash and bank balances and short-term investments with maturities not exceeding three months from the acquisition date.

Financial liabilities

All transactions pertaining to financial liabilities are recognized on the settlement date. Liabilities (except for derivative instruments with negative values) are measured at amortized cost.

Cash-flow hedges, interest-rate risk

Interest swaps can be used to hedge the uncertainty of highly probable forecasted interest-rate flows for borrowing at variable interest, whereby the company receives variable interest and pay fixed interest. Interest swaps are measured at fair value in the balance sheet. The interest coupon portion is continuously recognized in profit or loss as a portion of interest expense. Unrealized changes in fair value of interest swaps are recognized in other comprehensive income and are included as a portion of the hedging reserve until the hedged item impacted net profit for the year and as long as the criteria for hedge accounting and effectiveness are fulfilled. The gain or loss attributable to the ineffective portion of unrealized changes in value of interest swaps is recognized in profit or loss.

Impairment

The carrying amounts of the Group’s assets are tested annually for indications of any impairment requirement. IAS 36 is applied for the impairment testing of assets other than financial assets, which are tested according to IAS 39, inventories, and deferred tax assets, if any.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Impairment testing of tangible and intangible assets, and participations in subsidiaries

If there is an indication of an impairment requirement, the recoverable amount of the asset is tested in accordance with IAS 36 (see below). For goodwill and assets with indefinite life e.g. brand, the recoverable amount is calculated annually. When testing for impairment requirements, if it is not possible to establish essentially independent cash flows for an individual asset, the assets must be grouped at the lowest level at which it is possible to identify essentially independent cash flows, known as cash generating units.

Impairment losses are recognized when the carrying amount of an asset or a cash generating unit (group of units) exceeds the recoverable amount. Impairment losses are charged against profit or loss. Impairment losses related to assets attributable to a cash generating unit are primarily allocated to goodwill. Subsequently, a proportional impairment of other assets included in the unit (group of units) is effected.

The recoverable amount is the higher of fair value less selling expenses and value in use. When calculating the value in use, future cash flows are discounted using a discounting factor that takes into account the risk-free interest rate and the risk associated with the specific asset or cash generating unit (group of units).

Impairment testing of financial assets

The Group evaluates whether there is any objective evidence to suggest that a financial asset or group of assets is subject to an impairment requirement. Objective evidence comprises observable conditions that have occurred and that have had a negative impact on recoverable amount. For trade receivable, objective evidence comprises, for example, payment difficulties among customers or imminent corporate reconstructions. Trade receivable that require impairment are recognized at the present value of expected future cash flows.

Impairment reversal

An impairment loss on assets that come under the scope of IAS 36 is reversed if there is an indication that the impairment requirement is no longer pertinent and that there has been a change in the assumptions upon which the calculation of the recoverable amount was based. However, an impairment loss on goodwill is never reversed. A reversal is only performed to the extent that the carrying amount of the asset after the reversal does not exceed the carrying amount that would have been recognized, less depreciation wherever applicable, if no impairment had been posted.

An impairment loss on loans and trade receivable recognized at amortized cost is reversed if the previous reasons for the impairment loss no longer exist and full payment can be expected to be received from the customer.

Notes to the consolidated financial statements

1. Accounting policies (continued)

Provisions

Provisions are recognized in the balance sheet among short-term and long-term liabilities, when the Group has a legal or constructive obligation deriving from an occurred event and that it is probable that an outflow of resources will be required to settle the obligation and the amount concerned can be reliably estimated. A provision differs from other liabilities since the date of payment or the amount required to settle the provision is uncertain.

Contingent liabilities

A contingent liability is disclosed when the Company has a possible obligation deriving from an occurred event whose existence will be confirmed only by one or more uncertain future events, or when there is an obligation that has not been recognized as a liability or provision because it is not probable that an outflow of resources will be required, or alternatively because it is not possible to sufficiently reliably estimate the amount concerned.

Shareholders' equity

Dividends are recognized as a liability after the Annual General Meeting has approved the dividend.

Earnings per share

The calculation of earnings per share is based on consolidated net profit attributable to the Parent company shareholders and on the weighted average number of shares outstanding during the year. When calculating earnings per share after dilution, the average number of shares outstanding is adjusted to take into account the dilutive effects of potential ordinary shares including employee share options. The options are dilutive if the exercise price is lower than the share price. Dilution is greater, the greater the difference between the exercise price and the share price. For the options, the exercise price is added the value of future services.

Employee benefits

Other long-term remuneration

The Group operates schemes for remuneration to employees for long service.

The amount is deemed insignificant and the Group, therefore, recognizes the expense at the time of the anniversary.

Share-based remuneration schemes

Costs for employee benefits are recognized as the value of services received, allocated over the vesting periods for the plans, calculated as the fair value of the allotted equity instruments (IFRS 2). The fair value is determined on the allotment date, or the date on which TCM Group A/S and the employees have agreed on the terms and conditions of the plans. Since the plans are regulated with equity instruments, they are classified as "equity settled" and an amount corresponding to the recognized cost for employee benefits is recognized directly in shareholders' equity (retained earnings).

Notes to the consolidated financial statements

1. Accounting policies (continued)

The recognized cost is initially based on, and regularly adjusted in relation to, the number of share options/share rights that are expected to be vested by considering how many participants are expected to remain in service during the vesting period. Similarly, the allocation of the cost is based on, and regularly adjusted in relation to, the expected vesting period that is determined as the period until an exit defined as change in control over the Group or a public offering and listing of the shares of the Group.

Short-term remuneration

Short-term remuneration to employees is calculated without discounting and is recognized as a cost when the related services are obtained. A provision is posted for the anticipated cost of bonus payments when the Group has a current legal or contractive obligation to make such payments, due to the services being obtained from the employees and it being possible to reliably estimate the obligation.

2. Financial risks

Foreign exchange risk

TCM Group A/S has limited currency exposure and risk and, therefore, no currency hedging is applied. Sale is in DKK and purchase is primarily in DKK and EUR. Due to the current DKK-EUR fixing, purchase is not hedged. Purchase in other currencies was DKK 4 million in 2015/2016.

Translation exposure

The Group does not have any subsidiaries in foreign countries, why there is no translation exposure.

Credit risk

TCM Group A/S' customer base comprises both professional customers and consumers. Credit management and payment terms are monitored for each customer group. The Group provides credit to professional customers whereas consumers usually do not get credit. Credit assessments are continuously performed on customers who make regular purchases. Credit insurance, bank guarantees and other securities are utilized for the different markets and customer categories.

Notes to the consolidated financial statements

2. Financial risks (continued)

An impairment loss is recognized when obvious reasons are deemed to exist that the Group will not receive the entire or part of the amount due. Obvious reasons may, in this context, pertain to external information that establishes that a receivable is doubtful. An impairment loss is initially recognized for each individual receivable. Collective impairment losses are recognized for a group of receivables with similar credit features and characteristics.

Age analysis, trade receivable

	2016 **DKK'000**
Trade receivables	**32.463**
Non-due trade receivable	29.557
Past due trade receivable 0-30 days	1.976
Past due trade receivable 30-90 days	1.222
Past due trade receivable >90 days	636
Total overdue	**3.834**
Of which secured	2.388
- Impaired	0
Of which unsecured	1.446
- Impaired	(928)
Total overdue after impairment	**2.906**
Impairment loss recognized in the income statement during the period	**360**

Financial exposure

Group loans are handled by TCM Group A/S, which supplies the subsidiaries with funds. These loans are all in DKK and interest is charged according to arm's length principles.

Bank loans with a nominal amount of DKK 210 million have a term of 6 and 7 years and expire in 2022 and 2023, respectively. Borrowing costs of DKK 7.2 million are capitalized on the loans and amortized in accordance with the repayment terms stated in the loan agreements, with DKK 0.9 million recognised in the income statement during the period.

There are covenants associated with the bank loans. There has been no breach of any covenant during the period. The interest rates on the bank loans are variable, but are partially hedged with an interest rate swap.

Notes to the consolidated financial statements

2. Financial risks (continued)

Mortgage loans with a nominal amount of DKK 59 million in total have a term of 20 years and expire in 2032. The interest rates of mortgage loans are variable.

Interest-rate risk
It is Group policy to fully or partially hedge interest rate risks on loans when it is assessed that the interest payment can be hedged satisfactorily. Hedging is usually made by means of interest rate swaps, where loans at floating interest rates are fully or partially converted to loans with a fixed interest rate.

In 2016, the Group entered into an interest rate swap with a principal amount of DKK 139 million corresponding to 66% of the outstanding debt on bank loans of DKK 210 million. The interest rate swap expires on 29 March 2019. The change in the fair value of interest rate swap is recognized in other comprehensive income and is included as a portion of the hedging reserve in equity until the hedged item impacts net profit for the period and as long as the criteria for hedge accounting and effectiveness is fulfilled. The interest rate for the term of the agreement has been fixed at 0.1%.

For the Group’s floating rate cash and cash equivalents and debt to banks, an increase in interest rate level of 1% p.a. relative to the actual interest rates would have a negative impact on the profit for the period and on equity at 31 December 2016 of DKK 0.4 million.

Assumptions for analysis of sensitivity
The stated sensitivities are calculated on the basis of the recognized financial assets and liabilities at 31 December 2016. No adjustments have been made for instalments, raising of loans, etc. during the course of the year.

The computed expected fluctuations are based on the current market situation and expectations for the market developments in the interest rate level.

Capital management
The debt/equity ratio is not to exceed 100%. A temporary increase of the debt/equity ratio is acceptable. No formal dividend policy has been adopted in 2016. The debt/equity ratio at year-end amounted to 50%.

Fair value hierarchy of financial instruments measured at fair value in the balance sheet
Interest rate swaps are valued using an income approach (discounted cash flow). Expected future cash flows are based on relevant observable swap rates and discounted using a discount rate that reflects the credit risk of the relevant counterparties (level 2).

Notes to the consolidated financial statements

2. Financial risks (continued)

The classification of financial instruments measured at fair value is disaggregated in accordance with fair value hierarchy:

- Quoted prices in an active market for identical instruments (level 1)
- Quoted prices in an active market for similar assets or liabilities or other valuation methods where all significant inputs are based on observable market data (level 2)
- Valuation methods in which any significant input is not based on observable marked data (level 3)

Carrying amount of derivative financial instruments:

	2016 **DKK'000**
Interest rate swaps	(616)
	(616)

During the financial period, the Group had no financial instruments in level 1 or 3.

The fair value of financial assets and financial liabilities measured at amortised cost is approximately equal to carrying amount, due to the short maturity of financial assets and the floating rate of the financial liabilities.

Liquidity risk

Liquidity is controlled centrally with the aim of using available liquidity efficiently, at the same time keeping necessary reserves are available. Available liquidity comprised DKK 97 million as of 31 December 2016.

Maturity structure, financial and operational liabilities – undiscounted cash flows

DKK million	**Nominal amount, functional currency**	**0-6 months**	**6-12 months**	**1-5 years**	**5 years or later**	**Total**
Bank loans	203.7	35.0	9.7	73.4	110.9	229.0
Mortgage loans	59.0	2.1	2.1	16.3	42.7	63.2
Financial lease liabilities	0.5	0.2	0.1	0.2	0.0	0.5
Trade payables	84.8	84.8	0.0	0.0	0.0	84.8
Other liabilities	36.7	29.7	6.1	0.8	0.1	36.7
		151.8	**18.0**	**90.7**	**153.7**	**414.2**

Notes to the consolidated financial statements

3. Revenue and segment information

The Group's business activities are managed within a single operating segment that is producing and selling kitchens, bathrooms and storage. Kitchens and related products cover products for kitchen. The result of the operating segment is monitored by the Group's management to evaluate it and to allocate resources.

	Revenue from customers 2015/2016 DKK'000	**Intangible and tangible assets 2016 DKK'000**
Geographic areas, Group		
Denmark	469.155	630.829
Other countries	39.376	0
	508.531	**630.829**

Revenue consists of sale of goods and services.

4. Costs for employee benefits

Total costs for employee benefits

	2015/2016 DKK'000
Salaries and other remuneration	99.656
Social security costs	2.683
Pension costs – defined contribution plans	13.004
Other staff costs	44
Share-based payments	2.132
Total costs for employees	**117.519**

The average number of employees and number of men and women among Board members and Executive Management are described in note 5.

Notes to the consolidated financial statements

4. Costs for employee benefits (continued)

Remuneration and other benefits

DKK'000	Basic salary, Directors fees	Variable remuneration	Other benefits	Pension costs	Share-based payments	Total	Number of individuals
Board of Directors	475	0	0	0	50	525	3
Executive Management	4.120	1.069	479	256	1.915	7.839	3
Total	**4.595**	**1.069**	**479**	**256**	**1.965**	**8.364**	**6**

Employees including the Board of Directors and Executive Management have the opportunity to buy kitchens, bathrooms and storage at a discounted price. The purchases are done indirectly through an independent store. The total value of the purchases made by the Board of Directors and Executive Management was DKK 137 thousand during the period.

Board of Directors
Remuneration to members of the Board of Directors is determined by resolutions taken at the Annual General Meeting.

Executive Management
Executive Management, which comprise 3 individuals, received salaries and benefits during the fiscal year amounting to DKK 4.1 million plus variable salary portions based on results for 2015/2016 of DKK 1.1 million.

Share option scheme 2016 (warrants)
Share-based remuneration (warrants) pertains to employee benefits, including the Chairman of the Board of Directors, Executive Management, and key employees in accordance with the employee share option scheme, allotted by TCM Group A/S in 2016. The share options are linked to the their investment in shares in TCM Group A/S and are conditional to continued employment at an exit defined as change in control over the Group or a public offering and listing of the shares of the Group.

Notes to the consolidated financial statements

4. Costs for employee benefits (continued)

Remuneration and other benefits (continued)

The Chairman of the Board, Executive Management, and key employees have bought 7,524 shares of DKK 3,097 in TCM Group A/S and have in this regard been awarded 13,660 share options.

	Number of share options	Average exercise price DKK per option
As of 9 December 2015	0	0
Allotted	13.660	3.097
As of 31 December 2016	**13.660**	**3.234**

The expected remaining life of the options, that is the period until an exit as explained above, is 11 months as at 31 December 2016.

The fair value per share option of DKK 401.21 is calculated at the date of allotment and is based on a Black-Scholes model.

The exercise price has a hurdle rate of 8% p.a. i.e. the exercise price increases by 8% p.a. As of 31 December 2016, 100% of the options are expected to be exercised. The fair value at date of allotment is charged to staff costs over the vesting period. The cost in 2015/2016 amounts to DKK 2.1 million.

The assumptions of the calculation are as follows:

	2016
Initial exercise price (DKK per option)	3.097
Share price (DKK per option)	3.097
Expected exercise price at a hurdle rate of 8% p.a. (DKK per option)	3.821
Expected volatility, applying 5 years data for a peer group (%)	31,9
Risk free interest rate (%)	(0,4)
Expected time to maturity (months)	33,0
Expected dividend (DKK per option)	0,0

Notes to the consolidated financial statements

5. Average number of employees during the period

	2016
Average number of employees	336
Board members	3
Of which women	*1*
Senior executives	3
Of which women	*0*

Anders Tormod Skole-Sørensen and Peter Liebert Jelkeby have been elected as a Board member in 2017 and thus the Board of Directors consists of 5 members in total at the date of approval of these consolidated financial statements.

6. Remuneration to auditors

	2015/2016 DKK'000
Specification by type of costs	
Statutory audit	315
Other assurance engagements	32
Tax and indirect taxes advisory	31
Other services	1.318
	1.696

7. Depreciation/amortization and impairment by activity

	Depreciation/ amortization 2015/2016 DKK'000	Impair- ment 2015/2016 DKK'000
Cost of goods sold	4.056	0
Selling expenses	18	0
Administrative expenses	8.741	0
Non-recurring items	5.478	0
Total depreciation/amortization and impairment	**18.293**	**0**

Notes to the consolidated financial statements

8. Operating leases

For the years 2017-2022, non-cancellable leases have been entered into regarding rental contracts for premises and vehicles mainly. The leases are made with fixed lease payments, which are indexed. The leases are non-cancellable until the period mentioned and are then cancellable within 3-12 months.

The nominal values of contracted future leasing payments are specified as follows:

	2016 DKK'000
Falling due for payment within one year	4.239
Falling due for payment between one and two years	3.396
Falling due for payment between two and three years	3.238
Falling due for payment between three and four years	2.780
Falling due for payment between four and five years	2.646
Falling due for payment later	1.323
Total	**17.622**
Expensed during the period	4.851

The nominal values of rental contracts that are subleased (income) are specified as follows:

	2016 DKK'000
Falling due for payment within one year	7.178
Falling due for payment between one and two years	4.328
Falling due for payment between two and three years	2.440
Falling due for payment between three and four years	2.177
Falling due for payment between four and five years	2.177
Falling due for payment later	1.089
Total	**19.389**

9. Non-recurring items

	2015/2016 DKK'000
Transaction costs related to business combinations	13.219
Amortization of order backlog	5.478
Total	**18.697**

Notes to the consolidated financial statements

10. Financial income and expenses

	2015/2016 DKK'000
Financial income	
Interest income on financial assets measured at amortized costs	232
Financial expenses	
Interest expense on liabilities measured at amortized costs	(13.478)
Total	**(13.246)**

11. Corporation tax

	Income statement DKK'000	Other compre-hensive income DKK'000	Total compre-hensive income DKK'000
Tax for the period can be specified as follows:			
Current tax	16.012	(136)	15.876
Change in deferred tax during the period	(3.557)	0	(3.557)
Total	**12.455**	**(136)**	**12.319**

Reconciliation of the effective tax rate for the period can be specified as follows:

	%	2015/2016 DKK'000
Nominal weighted tax rate	22.0	9.016
Non-taxable income	(0.2)	(104)
Non-deductible expenses	7.1	2.939
Other	1.5	604
Effective tax rate for the period	**30.4**	**12.455**

Notes to the consolidated financial statements

12. Intangible assets

	2016 DKK'000
Goodwill	
Opening carrying amount	0
Acquisition of operations	315.779
Closing carrying amount	**315.779**
Brand	
Opening carrying amount	0
Acquisition of operations	171.961
Closing carrying amount	**171.961**

Impairment of testing of goodwill and brand

At the end of 2016, recognized goodwill amounted to DKK 315.8 million and recognized brand amounted to DKK 172.0 million.

Goodwill has been allocated to cash generating units (CGU) when these units were acquired. TCM Group A/S has one CGU corresponding to the operating segment "Sale of kitchens and related products", hence the acquired goodwill has been allocated.

Goodwill and brand are subject to an annual impairment test by calculating the expected recoverable amount of the CGU. The recoverable amount is calculated as the expected cash flow discounted by a weighted average cost of capital (WACC) after tax for the CGU. The recoverable amount, calculated in conjunction with this, is compared with the carrying amount, including goodwill and brand, for the CGU. The starting point of the calculation is the estimated future cash flows based on the financial budget for the forthcoming fiscal year. A forecast for the next four years is prepared based on this budget and expectations regarding market trends in the years ahead, which reflects previous experience.

When calculating the expected cash flow, significant assumptions applied include expected demand, growth in net sales, operating margin and working capital requirements. Various economic indicators are used to analyse the business climate, as well as external and internal analyses of these. The assumptions are also based on the impact of the Group's long-term strategic initiatives, comprising differentiated brands, a Group-wide range, central sourcing and product development. In order to extrapolate the cash flows beyond the first five years, a growth rate of 2% is applied.

Notes to the consolidated financial statements

12. Intangible assets (continued)

The weighted average cost of capital is calculated on the average debt/equity ratio for large companies in similar industries and costs for borrowed and shareholders' equity. The cost of shareholders' equity is determined on the basis of the assumption that all investors require at least the same level of return as for risk-free government bonds, with an additional risk premium for the estimated risks assumed when they invest in cash generating units. The risk premium has been established based on the long-term historical return on the stock market for large companies in similar industries by taking into consideration the risk profile of each business unit. The required return on debt financed capital is also calculated on the return on risk-free government bonds and by applying a borrowing margin based on an estimated company-specific risk. The current tax rate of 22% is applied.

In 2016, the Group's weighted cost of capital before tax amounted to 9.1% and after tax to 7.1%.

Testing of goodwill and brand did not lead to any impairment in 2015/2016.

Other intangible assets	**2016** **DKK'000**
Opening cost	0
Investments for the period	670
Acquisition of operations	47.752
Closing accumulated cost	**48.422**
Opening amortization	0
Amortization for the period	12.909
Closing accumulated amortization	**12.909**
Closing carrying amount	
Of which:	
Software	4.013
Franchise set-up	31.500
Closing carrying amount	**35.513**

In connection with the acquisition of TCM Group A/S (Former Holding Company), see note 28, the fair value of an order backlog of DKK 5.5 million has been recognised under Other intangible assets. As all orders have been delivered during the period, the full amount of the order backlog has been amortized during the period. Other intangible assets have a remaining amortization period of 5 years.

Notes to the consolidated financial statements

13. Tangible assets

DKK'000	Buildings	Land and land improvements	Tangible assets under construction and prepayments	Machinery and other technical equipment	Equipment, tools, fixtures and fittings
Opening cost	**0**	**0**	**0**	**0**	**0**
Investments for the period	500	248	1.680	788	518
Sales and scrapping	0	0	0	0	(278)
Acquisition of operations	86.696	8.738	0	10.405	3.388
Closing cost including written-up amount	**87.196**	**8.986**	**1.680**	**11.193**	**3.628**
Opening depreciation and impairment	0	0	0	0	0
Sales and scrapping	0	0	0	0	(274)
Depreciation for the period	1.794	0	0	2.191	1.396
Closing depreciation and impairment	**1.794**	**0**	**0**	**2.191**	**1.122**
Closing carrying amount	**85.402**	**8.986**	**1.680**	**9.002**	**2.506**
Of which carrying amount of financial leased assets					**603**

No impairment was charged to tangible assets.

Notes to the consolidated financial statements

14. Financial assets

Other non-current receivables	2016 DKK'000
Deposits	686
Total	**686**
Opening cost	0
Investments for the period	17
Acquisition of operations	669
Closing cost	**686**

15. Inventories

	2016 DKK'000
Raw materials and consumables	13.645
Products in progress	8.547
Finished products	13.234
Total write-down of inventories	(6.336)
	29.090

Costs of inventories recognized as an expense during the period are DKK 233.1 million and reversal of write downs of inventory recognized as an income during the period are DKK 0.2 million.

16. Shares and participations in subsidiaries

As of 31 December 2016:

	Business registration no	Domicile	Share of equity	No. of shares	Equity DKK'000
TCM Group Invest ApS	37291382	Holstebro	100%	100,000	337,303
TMK A/S	75924712	Holstebro	100%		
Køkkenretail ApS	32556108	Holstebro	100%		
Svane Køkkenet A/S	28517939	Holstebro	100%		
Concepta Skabe A/S	19040976	Horsens	100%		
Total					**337,303**

Notes to the consolidated financial statements

17. Prepaid expenses and accrued income

	2016 DKK'000
Contract work in progress	395
Prepaid rent	661
Other prepaid expenses	134
Total	**1.190**

18. Cash and cash equivalents

	2016 DKK'000
Cash and bank balances	96.610
Total	**96.610**

Unutilised overdraft facilities, which are not included in cash and cash equivalents, totaled DKK 30 million as of 31 December 2016.

19. Share capital

	No. of registered shares	No. of shares outstanding
As of 9 December 2015	50.000	50.000
As of 31 December 2016	100.000	100.000

Share capital amounted to DKK 100,000. The share's nominal value is DKK 1. All of the registered shares are fully paid. All shares are ordinary shares of the same type.

Notes to the consolidated financial statements

20. Reserves in shareholders' equity

	Value adjustment of cash flow hedges 2016 DKK'000	Total 2016 DKK'000
Opening balance, 9 December 2015		
Value adjustments of cash flow hedges, before tax	(616)	(616)
Tax on value adjustments of cash-flow hedges	136	136
Closing balance, 31 December 2016	**(480)**	**(480)**

Hedging reserve

The hedging reserve includes the effective portion of the accumulated net change in fair value of a cash flow hedging instrument attributable to hedging transactions that have not yet occurred.

21. Earnings per share

Earnings per share before dilution

Earnings per share before dilution are calculated by dividing profit attributable to the shareholders by the weighted average number of outstanding ordinary shares during the period.

	2016 DKK
Profit attributable to shareholders	28.528
Weighted average number of outstanding ordinary share before dilution	89.304
Earnings per share before dilution	319.45

Earnings per share after dilution

To calculate earnings per share after dilution, the weighted average number of outstanding ordinary shares is adjusted for the dilution effect of all potential ordinary shares. These potential ordinary shares are attributable to the employee share options that were allotted to certain senior executives in 2016. Refer to note 4, on page 40.

Notes to the consolidated financial statements

21. Earnings per share (continued)

Various circumstances may mean that the share options do not lead to any dilution. If net profit for the period from continuing operations is negative, the share options are considered dilutive. Also, the share options do not lead to dilution if the achieved earnings per share are insufficient to entitle shares at the end of the vesting period. In addition, the share options are not dilutive if the exercise price, including a supplement for the value of remaining future services to report during the vesting period, exceed the average share price for the period.

	2016 DKK
Weighted average number of outstanding ordinary share	89.304
Employee share option scheme	13.660
Weighted average number of outstanding ordinary share after dilution	90.242
Earnings per share after dilution	316.13

22. Dividend

No dividend for the fiscal year was proposed at the Annual General Meeting on 28 April 2017.

23. Deferred tax

	Deferred tax assets DKK'000	Deferred tax liabilities DKK'000	Net DKK'000
Opening balance	0	0	0
TCM Group A/S (Former Holding Company) acquisition	0	64.723	64.723
Recognized in net profit for the period	0	(3.557)	(3.557)
Closing balance	**0**	**61.166**	**61.166**

Notes to the consolidated financial statements

23. Deferred tax (continued)

The change in deferred tax liabilities for the period:

Deferred tax liabilities	Temporary differences in intangible/ tangible assets DKK'000	Other DKK'000	Total DKK'000
As of 9 December 2015	**0**	**0**	**0**
TCM Group A/S (Former Holding Company) acquisition	64.601	122	64.723
Recognized in net profit for the period	(2.427)	(1.130)	(3.557)
As of 31 December 2016	**62.174**	**(1.008)**	**61.166**

Corporation tax in Denmark for the year is 22.0%. There are no loss carryforwards.

24. Bank loans and mortgage loans

	2016 DKK'000
Maturity structure	
Within 1 year	42.760
Between 1 and 5 years	72.562
Longer than 5 years	147.976
Total	**263.298**

Refer to note 2 for additional information about bank loans and mortgage loans.

Notes to the consolidated financial statements

25. Financial assets and liabilities

	Derivative hedging in-struments measured at fair value	Loans and receivables	Financial liabilities measures at amortized cost	Total carrying amount
Other long-term receivables	0	686	0	686
Trade receivable	0	33.931	0	33.931
Cash and cash equivalents	0	96.610	0	96.610
Total	**0**	**131.227**	**0**	**131.227**
Long-term interest-bearing liabilities	0	0	219.598	219.598
Current interest-bearing liabilities	0	0	43.701	43.701
Accounts payable	0	0	84.770	84.770
Other liabilities	616	0	36.696	37.312
Total	**616**	**0**	**384.765**	**385.381**

26. Changes in liabilities attributable to the financing activities

	Mortgage loans 2016 DKK'000	Bank loans 2016 DKK'000	Financial lease liabilities 2016 DKK'000	Total 2016 DKK'000
Opening balance	0	0	0	0
TCM Group A/S (Former Holding Company) acquisition	62.888	0	834	63.722
Proceeds from loans	0	202.800	142	202.942
Repayment of loans	(3.620)	0	(465)	(4.085)
Total	**59.268**	**202.800**	**511**	**262.579**

Notes to the consolidated financial statements

27. Pledged assets, contingent liabilities and commitments

The Group has contingent liabilities pertaining to sub-contractor guarantees that arise in normal commercial operations. No significant liabilities are expected to arise through these contingent liabilities.

Based on the Group's assessment, no provision has been recorded for ongoing tax cases.

For collateral for debt to mortgage lender, DKK 59.1 million, pledges have been given in land and buildings with a carrying amount as of 31 December 2016 amounting to DKK 94.4 million.

Guarantees related to AB92 - provisions of work and supplies within building and engineering – amount to a total of DKK 3.4 million.

Other bank guarantees amount in total to DKK 0.3 million.

28. Company acquisitions (business combinations)

Acquisition of TCM Group A/S (Former Holding Company)

On 1 March 2016, TCM Group A/S acquired 100% of the share capital of TCM Group A/S (Former Holding Company) via TCM Group Invest ApS. Transaction costs for the acquisition amounted to DKK 13.2 million and are recognized under non-recurring items (see note 9). Pro forma sales for the full-year 2016 would amount to approx. DKK 600 million and the result for the full-year 2016 would amount to approx. DKK 30 million. Sales and result after the acquisition are stated in the income statement and balance sheet, as this is the only activity in the Group.

	2016 **DKK'000**
Purchase price	496.756
Fair value of acquired net assets	(180.977)
Goodwill	**315.779**

The agreed purchase price is determined on the basis of expectations for future earnings and cash flows that exceed the fair value of the individual identified assets and liabilities. Goodwill is the remaining amount after fair value of acquired net assets are identified.

Notes to the consolidated financial statements

28. Company acquisitions (business combinations) (continued)

	Fair value DKK’000	Acquired carrying amount DKK’000
Assets and liabilities included in the acquisition		
Cash and cash equivalents	17.307	17.307
Tangible assets	109.896	109.896
Brand	171.961	0
Other intangible assets	47.752	4.475
Inventories	33.416	33.416
Trade receivable and other receivables	33.064	33.064
Accounts payable and other operating liabilities	(101.561)	(101.561)
Interest-bearing liabilities	(63.491)	(63.491)
Taxes, net	(2.644)	(2.644)
Deferred taxes, net	(64.723)	(17.371)
Acquired net assets	**180.977**	**13.091**

	2016 DKK’000
Purchase consideration paid in cash	496.756
Cash and cash equivalents in acquired subsidiaries	17.307
Reduction in the Group’s cash and cash equivalents in conjunction with acquisition	**479.449**

Fair value of trade receivable amounts to DKK 30.1 million. The gross contractual receivables amount to DKK 31.2 million of which DKK 1.1 million is considered uncollectible.

Acquisition of Nettoline A/S (acquired subsequent to the balance sheet date)

On 1 January 2017, TCM Group A/S acquired 100% of the share capital of Nettoline A/S through a wholly owned subsidiary. Transaction costs for the acquisition amounted to DKK 0.3 million and are recognized under non-recurring items (see note 9).

	DKK’000
Purchase price	52.899
Fair value of acquired net assets	1.117
Goodwill	**54.016**

Notes to the consolidated financial statements

28. Company acquisitions (business combinations) (continued)

Goodwill is attributable to synergies that are expected to be achieved through additional co-ordination of sourcing, production, distribution and administration.

	Fair value DKK'000	Acquired carrying amount DKK'000
Assets and liabilities included in the acquisition		
Cash and cash equivalents	307	307
Tangible assets	1.024	1.024
Intangible assets	405	0
Inventories	10.060	10.060
Trade receivable and other receivables	4.237	4.237
Accounts payable and other operating liabilities	(14.452)	(14.452)
Interest-bearing liabilities	(2.319)	(2.319)
Deferred taxes, net	(379)	(290)
Acquired net assets	**(1.117)**	**(1.433)**

	DKK'000
Purchase consideration paid in cash	52.899
Cash and cash equivalents in acquired subsidiaries	113
Reduction in the Group's cash and cash equivalents in conjunction with acquisition	**52.786**

Fair value of trade receivable amounts to DKK 3.9 million. The gross contractual receivables amount to DKK 4.1 million of which DKK 0.2 million is considered uncollectible.

Notes to the consolidated financial statements

29. Related party transactions

Related parties with a controlling interest

The following related parties have a controlling interest in the Company:

Name	Registered office	Basis of influence
Innovator International S.a.r.l.	Luxembourg	93% ownership

Ultimate parent company is the private equity fund IK Cap 1 Fund (IK). No parent of the Company produces consolidated financial statements.

Transactions between related parties

During the financial period, the Group has had the following transactions with related parties:
Referring to note 4: Remuneration to senior executives and Board of Directors.

The capital increase during the period is fully subscribed by the parent company, see Change in consolidated shareholders' equity.

Advisory fee and travel expenses totalling DKK 5.9 million have been paid to IK Investment Partners Ltd, which is associated to the parent company.

There are no other transactions with related parties.

30. Events after the closing date

On 1 January, TCM Group A/S acquired 100% of the share capital in Nettoline A/S trough a wholly owned subsidiary. Reference is made to note 28. Company acquisitions (business combinations).

As of 28 April 2017, Anders Tormod Skole-Sørensen joined the board of directors and as of 15 September 2017, Peter Liebert Jelkeby joined the board of directors.

As of 15 September 2017, the company has changed its name and type to TCM Group A/S following a merger of the former TCM Group A/S and its subsidiary TMK A/S with TMK A/S as the continuing entity. Reference is made to the the group chart, page 2-3.

As of 2 October 2017, CFO Mogens Elbrønd Pedersen and COO Karsten Rydder Pedersen joined the executive management.

As of 3 October 2017, the site in Horsens has been sold with effect from 15 January 2018. The sale of the site will impact EBIT with a non-recurring loss of DKK 7 million and have a positive impact on Net Interest Bearing Debt of DKK 17 million.

Apart from the events recognized or disclosed in the annual report, no other events have occurred after the balance sheet date to this date which would influence the evaluation of this annual report.

Parent financial statements

Statement of comprehensive income for the period 9 December 2015 to 31 December 2016

Statement of comprehensive income

	Note	2015/2016 DKK'000
Administrative expenses	2, 3	(36)
Operating loss		**(36)**
Dividend from subsidiaries		0
Loss before tax		**(36)**
Tax on loss for the period	4	8
Loss for the period		**(28)**
Other comprehensive income after tax		0
Total comprehensive income (loss)		**(28)**

Parent financial statements

Balance sheet as of 31 December 2016

	Note	2016 DKK'000
Assets		
Non-current assets		
Investments in subsidiaries	5	311.817
Financial non-current assets		**311.817**
Total non-current assets		**311.817**
Current assets		
Tax receivable		8
Total current assets		**8**
Total assets		**311.825**
Equity and liabilities		
Share capital		100
Profit brought forward		311.689
Total equity		**311.789**
Current liabilities		
Other payables		36
Total current liabilities		**36**
Total liabilities		**36**
Total equity and liabilities		**311.825**

Parent financial statements

Cash flow statement for the period 9 December 2015 to 31 December 2016

	2015/2016 DKK'000
Operating activities	
Operating loss	(36)
Change in operating liabilities	36
Cash flow from operating activities	**0**
Company acquisition	(309.686)
Cash flow from investing activities	**(309.686)**
Capital increase	309.686
Cash flow from financing activities	**309.686**
Cash flow for the period	**0**
Cash at start of period	0
Cash at end of period	**0**

Parent financial statements

Changes in shareholders' equity

	Share capital DKK'000	Retained earnings DKK'000	Total DKK'000
Opening balance 09.12.2015, incorporation	**50**	**0**	**50**
Net loss for the period	0	(28)	(28)
Other comprehensive income for the period	0	0	0
Total comprehensive income (loss) for the period	**0**	**(28)**	**(28)**
Share-based payments	0	2.131	2.131
Capital increase	50	309.586	309.636
Closing balance 31.12.2016	**100**	**311.689**	**311.789**

Notes to the parent financial statements

1. Significant accounting estimates and judgements

Determining the carrying amount of certain assets and liabilities requires an estimate of how future events will affect the value of those assets and liabilities at the balance sheet date. Estimates that are significant to the Parent's financial reporting are made, for instance, by reviewing investments in subsidiaries for impairment. They constitute a major portion of the Parent's total assets.

Subsidiaries are tested for impairment if events or other circumstances indicate that the carrying amount is not recoverable. Measuring subsidiaries requires significant estimates to be made when making different assumptions, including expected future cash flows, discount rate and terminal value growth rates. The sensitivity to changes in the assumptions applied collectively and individually – may be significant.

Particular estimation uncertainties and judgements made in respect of the Group is discussed in note 1 to the consolidated financial statements.

2. Administrative expenses

The Executive Management has not received remuneration from the parent company during the financial period.

3. Remuneration to auditors

	2015/2016 **DKK'000**
Specification by type of costs	
Statutory audit	15
Tax and indirect taxes consultancy	3
Other service	18
	36

Notes to the parent financial statements

4. Corporation tax

	Income statement DKK'000	Other compre-hensive income DKK'000	Total compre-hensive income DKK'000
Tax for the period can be specified as follows:			
Current tax	8	0	8
Total	**8**	**0**	**8**

5. Investments in subsidiaries

Investments in subsidiaries	**2016 DKK'000**
Cost at start of period	0
Acquisition during the period	309.686
Contribution of share based payment	2.131
Cost at end of period	**311.817**
Carrying amount at 31 December 2016	**311.817**

Investments in subsidiaries comprise:

TCM Group Invest ApS, 100%

The carrying amount of the Parent's investments in subsidiaries is tested for impairment if an indication of impairment exists. The impairment test conducted has not resulted in a need for impairments.

6. Guarantees, contingent liabilities and collateral

The Company has, in respect of the Group's commitment to Nordea, offered a pledge ban on movable property, fixed assets and furniture in leased premises, as well as debt collateral.

TCM Group A/S is part of a Danish joint taxation. Consequently, referring to the Danish Corporation Tax Act regulations, TCM Group A/S is, with effect from the financial year 2016, liable for any income taxes, etc. for the jointly taxed companies and TCM Group A/S is likewise liable for any obligations to withhold tax at source on interest, royalties and returns for the jointly taxed companies.

Notes to the parent financial statements

7. Related parties

For specification of related parties refer to note 15 and 29 of the consolidated financial statements.

Referring to note 4 of the consolidated financial statements, share based payment granted to employees of the subsidiary but settled by TCM Group A/S.

Aside from this, no transactions with the Executive Management or major shareholders or other related parties have been made during the period.

8. Events after the balance sheet date

No significant events have occurred after 31 December 2016 other than those disclosed in the consolidated financial statements.

9. Accounting policies

The separate parent financial statements have been incorporated in the annual report because a separate set of financial statements is required for the Parent under the Danish Financial Statements Act.

These parent financial statements are prepared under the historical cost convention and presented in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Description of accounting policies applied

Compared with the accounting policies described for the consolidated financial statements (see note 1 to the consolidated financial statements), the accounting policies applied by the Parent are different in the following:

Notes to the parent financial statements

9. Accounting policies (continued)

Dividend income
Distribution of profits accumulated by subsidiaries is taken to income in the Parent's income statement in the financial year in which the dividend is declared. If an amount is distributed exceeding the subsidiary's comprehensive income for the year, then an impairment test is performed.

Investments in subsidiaries
Investments in subsidiaries are measured at cost in the parent financial statements. If an indication of impairment exists, then an impairment test is performed as described in the accounting policies for the consolidated financial statements. If the carrying amount exceeds the recoverable amount, investments are written down to such lower amount.

If distribution is made from reserves other than accumulated profits of subsidiaries, such distribution will reduce the cost of the investments if the distribution is in the nature of a repayment of the Parent's investment.

Statement by Management on the annual report

The Board of Directors and the Executive Management have today considered and approved the annual report for the period 09.12.2015 – 31.12.2016. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 31.12.2016 as well as of the results of their operations and the consolidated cash flows for the period 09.12.2015 – 31.12.2016.

In our opinion, the management commentary contains a fair review of the development of the Group's and the Parent's business and financial matters, the results for the period and of the Parent's financial position and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the Parent face.

Holstebro, 3 October 2017

Executive Management

Ole Lund Andersen
Chief Executive Officer

Mogens Elbrønd Pedersen
Chief Financial Officer

Karsten Rydder Pedersen
Chief Operating Officer

Board of Directors

Sanna Mari Suvanto-Harsaae
Chairman

Kristian Carlsson Kemppinen
Deputy Chairman

Erik Albert Ingemarsson

Anders Tormod Skole-Sørensen

Peter Liebert Jelkeby

Independent auditor's report

To the shareholders of TCM Group A/S

Opinion

We have audited the consolidated financial statements and the parent financial statements of TCM Group A/S for the period 09.12.2015 – 31.12.2016, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement 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 International Financial Reporting Standards as adopted by the EU and additional requirements of 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 31.12.2016, and of the results of their operations and cash flows for the period 09.12.2015 – 31.12.2016 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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.

Statement on the management commentary

Management is responsible for the management commentary.

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.

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 International Financial Reporting Standards as adopted by the EU and additional requirements of 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 Parent'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 the parent 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 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’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 Parent’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.

Copenhagen, 3 October 2017

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Bill Haudal Pedersen State-Authorised Public Accountant	Sumit Sudan State-Authorised Public Accountant