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DDM DEBT AB (publ)

Corporate Identity Number 559053-6230

# ANNUAL REPORT 2016

MULTINATIONAL INVESTOR  
AND MANAGER OF DISTRESSED ASSETS



**The DDM Debt AB  
2016 Annual Report**

DDM Debt AB (publ) ("DDM Debt" or the "Company") is a Swedish company headquartered in Stockholm. Corporate registration number 559053-6230.

Values are expressed in euro (EUR), thousands of euros as EUR 000s and millions of euros as EUR M.

Data on markets and competitors are DDM Debt's own estimates, unless another source is specified. This report may contain forward-looking statements that are based on the current expectations of DDM Debt's management. Although management believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove correct. Accordingly, results could differ materially from those implied in the forward-looking statements as a result of factors including changes in economic, market and competitive conditions, changes in the regulatory environment and other government actions, fluctuations in exchange rates and other factors.

DDM Debt's annual and interim reports are available in English from the Company's website [>>](#).

Any questions regarding financial data published by DDM Debt may be submitted to DDM's Investor Relations, tel. +46 8 4080 9030 or email: [investor@ddm-group.ch](mailto:investor@ddm-group.ch)

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## 2016 Highlights

# Financial calendar 2017/2018

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Annual General Meeting  
2017:

**31 May 2017**

Interim Report  
January-March 2017:

**11 May 2017**

Interim Report  
January-June 2017:

**3 August 2017**

Interim Report  
January-September 2017:

**2 November 2017**

Q4 and Full Year Report  
2017:

**February 2018**

2017 Annual Report:

**March 2018**

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## This is DDM Debt

### Specialist in an expanding sector

DDM Debt AB ("DDM" or the "Company") was founded in 2016 to fund the DDM Group's growth via corporate bonds. The DDM Group is based in Baar, Switzerland.

The DDM Group is a multinational investor in, and manager of distressed assets, offering the prospect of attractive returns from the expanding Central and Eastern European market for distressed assets including non-performing loans. For sellers, management of portfolios of distressed assets is a sensitive issue as it concerns the relationship with their customers. For sellers of portfolios it is therefore critical that the acquirer handles the underlying individual debtors professionally, ethically and with respect. The DDM Group has longstanding relations with sellers of distressed assets, based on trust and the Company's status as a credible acquirer.

The banking sector in Central and Eastern Europe is subject to increasingly strict capital ratio requirements resulting in distressed assets being more expensive for banks to keep on their balance sheets. As a result, banks are increasingly looking to divest portfolios of distressed and other non-core assets.

The DDM Group acquires distressed assets mainly consisting of non-performing loans with an investment value of EUR 3–30M. Since inception, the DDM Group has been successful in valuing distressed assets. A disciplined purchase process ensures efficient operations and allows for collections in line with forecasts. The valuation of a prospective debt portfolio is based on quantitative models linked to a reference database and considers criteria such as jurisdiction, zip code, claim size, borrower age, previous payment history and vendor type. DDM Group's database covers current and historical information at an individual and transactional level.

The DDM Group is currently managing 2.3 million receivables with a nominal value of over EUR 2 billion.

The DDM Group itself does not conduct any in-house debt collections. Debt collections are managed by selected and well-reputed local debt collection agencies. Commissions paid to collection agencies are mainly performance-based and in general increase as receivables become older and more difficult to collect.

## STATEMENT BY THE CEO



Gustav Hultgren,  
CEO of DDM Debt

*“The landmark transaction in Slovenia was the largest portfolio acquired by DDM where we own 100% of the asset. This acquisition also means that we have established a solid foothold on the Slovenian market”*

## Significant achievements in the first period of operations

**The DDM Debt Group was established in 2016 and achieved a great deal during its first period of operations, completing a landmark transaction in Slovenia in July. We acquired a significant portfolio and successfully issued our first Euro denominated bond which matches the currency denomination of the assets in Slovenia.**

Our achievements in 2016 have demonstrated that we have the right resources and people in place to achieve our goals. Our expertise and the trust DDM enjoys in the market enables us to secure and manage large and complex transactions.

### Slovenian transaction

In July 2016 the DDM Debt Group closed a landmark transaction for DDM as a group of companies. We invested approximately EUR 17M in Slovenia in a portfolio of non-performing banking claims, establishing a solid foothold on the important Slovenian market. The acquisition was funded by a new bond of EUR 11M issued in July, along with additional funding raised by DDM Holding AG. The new bond at 13% interest matures 12 months from the issuance date and will be repaid during the period.

### Earnings 2016

For the period 3 March – 31 December 2016, net collections amounted to EUR 9.7M due to the strong performance of the Slovenian portfolio. Cash EBITDA, that is, net collections less operating expenses, amounted to EUR 8.7M. Cash EBITDA is an important measure for DDM as this measures the cash available for servicing debt and guides the potential for growth based on current funding. On the back of the strong cash EBITDA, in accordance with the terms and conditions of the EUR 11M bond issued in July 2016 in connection to the Slovenian portfolio acquisition, repayments of approximately EUR 4.5M were made during 2016.

### Market outlook

We continue to see strong prospects for further market growth. In an environment with many investment options, it remains important that we maintain our demands on portfolio quality and return, consistent with DDM's long track record of successful investments.

We have accomplished a great deal in 2016 during our first period of operations and continue to work on the favourable development of our business and the strengthening of our relationships, making DDM ready for the next stage of our growth journey. I would like to thank all of our colleagues, customers, investors and partners, who have made this possible and look forward to a successful 2017!

# Administration Report

The Board of Directors and the CEO of DDM Debt AB (publ) hereby submit the annual report and consolidated financial statements for the period from 3 March 2016 to 31 December 2016.

## Information regarding the operations

DDM Debt AB (publ) (corporate identity number 559053-6230) is domiciled in Stockholm, Sweden and is a limited liability company that conducts operations in accordance with the Swedish Companies Act. The Company was registered on 3 March 2016, and changed from a private limited liability company to a public limited liability company on 26 May 2016.

DDM Debt is a wholly owned subsidiary of DDM Finance AB, Stockholm, Sweden, being a wholly owned subsidiary of DDM Group AG, Baar, Switzerland. DDM Group AG is a wholly-owned subsidiary of DDM Holding AG. DDM Holding AG has been listed on Nasdaq First North exchange in Stockholm, Sweden, since August 2014. DDM Invest VII AG, Switzerland, and DDM Invest VII d.o.o., Slovenia, are wholly owned subsidiaries of DDM Debt.

DDM Debt acts solely as an issuer of financial instruments and extends this funding intra-group, whereas DDM Group AG acts as the investment manager and makes all decisions regarding investments and allocation of resources.

## Facts and figures – The DDM Debt Group 2016

Consolidated revenue on invested assets during the year amounted to EUR 6,881,180 and operating profit amounted to EUR 5,964,635.

Profit before tax for the year amounted to EUR 4,699,191 and net profit for the period was EUR 4,215,695.

## Significant events during the financial year

The DDM Debt Group was established in 2016 and in July completed a significant transaction in Slovenia, which was a landmark transaction for the DDM Group. We invested approximately EUR 17M in Slovenia in a portfolio of non-performing banking claims. The acquisition was funded by a bond of EUR 11M issued in July, along with additional equity funding raised by DDM Holding AG. The bond at 13% interest matures 12 months from the issuance date and will be repaid during the period.

Net collections during the year were EUR 9,665,953, due to the strong performance of the Slovenian portfolio, which also resulted in strong cash flows. On the back of this, in accordance with the terms and conditions of the EUR 11M bond issued in July 2016 in connection to the Slovenian portfolio acquisition, repayments of approximately EUR 4.5M were made during 2016.

The DDM Debt Group saw a strong deal flow in 2016 and was invited to participate in a large number of debt tenders.

## Geographical regions

The operational and investment activities of the DDM Debt Group and the DDM Group are not divided into geographical regions for reporting purposes. Potential investments and existing investments are always measured on their own merits and according to assumptions and forecasts made at the time of investing.

**Distressed asset portfolios**

Distressed asset portfolios i.e. portfolios of overdue receivables, are acquired for significantly less than their nominal value, after which the DDM Debt Group collects the receivables in cooperation with local debt collection agencies. As such, revenue on invested assets represents 100% of the consolidated income.

In 2016, the cash purchase price of investments in distressed asset portfolios amounted to EUR 16,878,343.

**Expenses**

Operating expenses consisted primarily of costs relating to audit, legal and accounting services, salary costs and office rent expense.

**Net financial expenses**

In 2016 net financial expenses were EUR 1,265,444.

**Cash flow and investments**

Cash flow from operating activities before working capital changes for the period 3 March – 31 December amounted to positive EUR 7,433,363, benefitting from strong cash flows from the Slovenian acquisitions. On the back of this, in accordance with the terms and conditions of the EUR 11M bond issued in July 2016 in connection to the Slovenian portfolio acquisition, repayments of approximately EUR 4.5M were made during 2016.

**Research and Development**

DDM Debt is not engaged in any research and development activities. All IT development required for analysis, pricing, investing, and active portfolio management are made by DDM Group AG.

**Financing**

At 31 December 2016 net debt, consisting of the senior secured bond loan issued during 2016 and interest-bearing intercompany loans, less cash and cash equivalents, amounted to EUR 9,962,809. Shareholders' equity amounted to EUR 4,269,695.

**Non-financial earnings indicators***DDM Debt's role in society*

The Company offers a platform for economic growth by allowing companies and banks the opportunity to manage their credit exposure. DDM's systems and understanding of creditor's requirements are optimized and are paired with respect for debtors and their integrity.

*Business ethics*

DDM's values act as a guide on how business with the Company's clients and customers is managed. The ethical rules deal primarily with a respectful attitude towards clients and customers.

*Working conditions*

Employees have the right to secure and healthy workplaces, as well as fair terms of employment in line with market levels. Men and women are given equal opportunities. A sustainable and commercially successful business relies on skilled and motivated employees.

*Environment*

As a service company, DDM generally has limited possibilities to affect the environment, although it seeks to act in an environmentally responsible manner where possible.

**Market outlook**

We are positive about the outlook for the company on the back of our strong results, financial metrics and cash flows. We anticipate the strong pipeline of portfolios for sale across our region to continue and outpace industry growth in Europe as a whole. DDM is well placed to continue its rapid expansion in its investment activities. We continue to see increasing opportunities for profitable growth of our investment portfolio as a direct result of entering new markets coupled with a continuous strong and growing pipeline.

**Board work**

According to DDM Debt's Articles of Association, the Board of Directors shall consist of no less than three and no more than ten members with no more than five deputies. All members are elected at the annual general meeting.

**Parent Company**

The operations of the Parent Company encompass ownership of the subsidiaries, DDM Invest VII AG and DDM Invest VII d.o.o., and providing funding for the subsidiaries' investments into distressed asset portfolios through the issuance of financial instruments. The funding is provided by intercompany loans.

The Parent Company reported revenue of EUR 0 for the period 3 March – 31 December 2016, income from participation in Group companies of EUR 150,000 and a profit before tax of 97,582.

The Parent Company had no employees during the year.

**Events after the balance sheet date**

In January 2017 DDM Debt made further loan repayments of approximately EUR 3.4M on the EUR 11M bond issued in July.

EUR 50M of senior secured bonds at 9.5% were issued by DDM Debt AB in January, with the proceeds used to refinance existing debt within the DDM Holding Group and to acquire DDM Treasury Sweden AB's subsidiaries holding the portfolios, with the balance to be used for future portfolio acquisitions.

**Financial summary**

<b>Key figures, EUR</b> (unless otherwise indicated)	<b>2016</b>
Revenue on invested assets	6,881,180
Operating profit	5,964,635
Operating margin, %	86.7
Cash flow from operating activities	7,381,582

**Risk management and financial risks**

Risk management is handled by employees and management of DDM Group who report to the Board on the basis of the policy adopted by the Board. DDM Group identifies, evaluates and mitigates financial risks relating to the operating activities of DDM Debt. The Board determines and adopts an overall internal policy for risk management. This policy is divided into different sections addressing specific areas, such as currency risk, interest risk, credit risk, liquidity risk, distressed asset portfolios risk and financing risk.

DDM Debt defines risk as all factors which could have a negative impact on the ability of the Company to achieve its business objectives. All business activity is associated with risk. In order to manage risk in a balanced way, it must first be identified and assessed. DDM Debt's risk management is conducted by employees and management at DDM Group, where risks are evaluated in a systematic manner.

The following summary offers examples of risk factors which are considered to be especially important for DDM Debt's future development but is by no means comprehensive.

*Economic fluctuations*

The debt collection industry is negatively affected by a weakened economy. However, DDM Group's assessment is that, historically, it has been less affected by economic fluctuations than many other sectors. Risks associated with changes in economic conditions are managed through ongoing monitoring of each country's economic situation and development



*Changes in regulations*

With regard to risks associated with changes in regulations in its markets, DDM Group continuously monitors the regulatory efforts to be able to indicate potentially negative effects and to work for favorable regulatory changes. Changes in regulations can lead to a short-term impact on the results, however, in the long-term the operations have historically adapted to the new circumstances.

*Market risks*

DDM Debt's financing and financial risks are managed by DDM Group in accordance with the policy established by the Board of Directors. The policy contains rules for managing activities, delegating responsibility, measuring, identifying and reporting risks and limiting these risks. Operations are concentrated in the DDM Group in Switzerland, ensuring economies of scale when pricing financial transactions.

In each country where DDM Debt invests, revenue and most operating expenses are denominated in local currencies. Revenue and expenses in local currency are thereby hedged in a natural way, which limits transaction exposure. DDM is not using any hedging instruments. As part of cash management DDM is striving to maintain cash in the different currencies they are exposed to. For further information regarding currency exposure, see note 10.

Interest rate risks relate primarily to DDM Debt's interest-bearing debt, which in 2016 consisted of a short-term bond at 13% interest rate. Borrowings issued at fixed rates expose DDM Debt to fair value interest rate risk.

*Liquidity risk*

DDM Debt has deposited its liquid assets with established financial institutions where the risk of loss is considered remote. DDM Debt's cash and cash equivalents consist solely of bank balances. DDM Group prepares regular liquidity forecasts with the purpose of optimizing liquid funds so that the net interest expense and currency exchanges are minimized without incurring difficulties in meeting external commitments.

*Credit risk*

Credit risk is the risk that the counterparty in a financial transaction will not fulfil its obligations on the maturity date. Credit risk is managed by DDM Group and arises from cash and cash equivalents, and deposits with banks and financial institutions.

*Risks inherent in distressed asset portfolios*

To minimize the risks in this business, caution is exercised in investment decisions. The DDM Group acquires distressed assets mainly consisting of non-performing loans with an investment value of EUR 3–30M. Sellers are primarily financial institutions, typically international banks with presence in several countries in Central and Eastern Europe. The DDM Group has established relationships with sellers throughout the industry and as DDM is able to take on a leading position, we get repeat business as well as access to financial co-investors. Historically the DDM Group has acquired portfolios of unsecuritized assets, however in 2015 it made two significant acquisitions where the majority of assets are securitized. The landmark acquisition by DDM Debt in Slovenia in 2016 contains a significant portion of securitized assets.

Distressed asset portfolios are usually purchased at prices significantly below the nominal value of the receivables, and the DDM Debt Group retains the entire amount it collects, including interest and fees, after deducting costs directly relating to the collection of the debt. DDM Group places return requirements on distressed asset portfolios. Before every acquisition, a careful assessment is made based on a projection of future cash flows (collected amounts) from the portfolio. In its calculations, DDM Group is aided by its long experience in collection management and its scoring models. Scoring entails the individual debtor's payment capacity being assessed with the aid of statistical analysis, as well as suggesting the actions needed to achieve optimal returns. DDM Group therefore believes that it has the expertise required to evaluate these types of distressed assets. To facilitate the purchase of larger portfolios at attractive risk levels, DDM Group works in cooperation with other institutions and shares the equity investment and profits. Risks are further diversified by acquiring distressed assets from various sellers in different countries.



*Financing risk*

The terms and conditions of DDM Debt's EUR 11M senior secured notes contain a number of conditions including mandatory partial redemption payments and quarterly interest payments. The notes at 13% interest have a maturity date of 15 July 2017 and will be repaid during the period. The terms and conditions in their entirety are available on our website.

The DDM Group management carefully monitors the terms and conditions, so that it can quickly take measures if there is a risk that they might not be complied with. The terms and conditions were fully met in 2016.

For further information regarding the financial risk management of DDM Debt, see note 3.

**Employees**

DDM Debt had no employees in 2016, while the DDM Debt Group had two employees. All other staff involved in the activities of DDM Debt are employed by DDM Group AG and are based in Baar, Switzerland. DDM Group AG charges the DDM Debt Group a management fee for this work.

**Proposed appropriation of earnings**

The Parent Company's distributable funds are at the disposal of the Board of Directors as follows:

<b>EUR</b>	<b>2016</b>
Retained earnings	–
Net earnings for the period	97,582
<b>Total</b>	<b>97,582</b>

The Board of Directors propose that the earnings be distributed as follows:

<b>EUR</b>	<b>2016</b>
Balance carried forward	97,582
<b>Total</b>	<b>97,582</b>

For other information we refer to the following financial statements and notes.

## GROUP CONSOLIDATED INCOME STATEMENT

Amounts in EUR	Notes	3 Mar – 31 Dec 2016
<b>Revenue on invested assets</b>	5	<b>6,881,180</b>
Personnel expenses	6	(3,086)
Consulting expenses	7	(907,402)
Other operating expenses		(6,057)
<b>Operating profit</b>		<b>5,964,635</b>
Financial income	8	43
Financial expenses	8	(1,265,487)
<b>Net financial expenses</b>		<b>(1,265,444)</b>
<b>Profit before income tax</b>		<b>4,699,191</b>
Tax expense	9	(483,496)
<b>Net profit for the period</b>		<b>4,215,695</b>
<b>Of which attributable to:</b>		
Owners of the Parent Company		<b>4,215,695</b>
<b>Earnings per share, EUR</b>		<b>78.07</b>

## GROUP CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Amounts in EUR	3 Mar – 31 Dec 2016
<b>Net profit for the period</b>	<b>4,215,695</b>
<b>Other comprehensive income for the period</b>	
Items that will not be reclassified to profit or loss	–
Items that may subsequently be reclassified to profit or loss:	–
<b>Other comprehensive income for the period, net of tax</b>	–
<b>Total comprehensive income for the period</b>	<b>4,215,695</b>
<b>Total comprehensive income for the period attributable to owners of the Parent Company</b>	<b>4,215,695</b>

## GROUP CONSOLIDATED BALANCE SHEET

As at 31 December Amounts in EUR	Notes	2016
<b>ASSETS</b>		
<i>Non-current assets</i>		
Distressed asset portfolios	10	15,599,671
Financial non-current assets		1,418
<b>Total non-current assets</b>		<b>15,601,089</b>
<i>Current assets</i>		
Accounts receivable	11	199,972
Other receivables	11	842,452
Prepaid expenses and accrued income	11	5,120
Cash and cash equivalents	12	3,739,457
<b>Total current assets</b>		<b>4,787,001</b>
<b>TOTAL ASSETS</b>		<b>20,388,090</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<i>Shareholders' equity</i>		
Share capital	13	54,000
Retained earnings including net earnings for the period		4,215,695
<b>Total shareholders' equity attributable to Parent Company's shareholders</b>		<b>4,269,695</b>
<i>Non-current liabilities</i>		
Payables to other group companies	16	1,005,962
Loans from other group companies	16	7,518,387
<b>Total non-current liabilities</b>		<b>8,524,349</b>
<i>Current liabilities</i>		
Accounts payable	15	64,837
Bond loan	14, 15	6,183,879
Accrued interest	15, 16	412,986
Accrued expenses and deferred income	15	932,344
<b>Total current liabilities</b>		<b>7,594,046</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>20,388,090</b>

## GROUP

### CONSOLIDATED CASH FLOW STATEMENT

Amounts in EUR	3 Mar – 31 Dec 2016
<b>Cash flow from operating activities</b>	
Operating profit	5,964,635
<i>Adjustments for non-cash items:</i>	
<i>Amortization of invested assets</i>	2,784,773
<i>Revaluation and impairment of invested assets</i>	–
<i>Other items not affecting cash</i>	(991,359)
Interest paid	(324,729)
Interest received	43
<b>Cash flow from operating activities before working capital changes</b>	<b>7,433,363</b>
<b>Working capital adjustments</b>	
(Increase) / decrease in accounts receivable	(199,972)
(Increase) / decrease in other receivables	(848,990)
Increase / (decrease) in accounts payable	64,837
Increase / (decrease) in other current liabilities	932,344
<b>Net cash flow from operating activities</b>	<b>7,381,582</b>
<b>Cash flow from investing activities</b>	
Purchases of distressed asset portfolios	(16,878,343)
<b>Net cash flow received / (used) in investing activities</b>	<b>(16,878,343)</b>
<b>Cash flow from financing activities</b>	
Proceeds from issuance of ordinary shares	54,000
Proceeds from issuance of loans	10,453,000
Proceeds from loans from group companies	7,264,142
Repayment of loans	(4,535,000)
<b>Net cash flow received / (used) in financing activities</b>	<b>13,236,142</b>
<b>Cash flow for the period</b>	<b>3,739,381</b>
Cash and cash equivalents less bank overdrafts at beginning of the period	–
Foreign exchange gains / (losses) on cash and cash equivalents	76
<b>Cash and cash equivalents less bank overdrafts at end of the period</b>	<b>3,739,457</b>

## GROUP

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in EUR	Share capital	Retained earnings	Total equity
<b>Balance at 3 March 2016</b>	<b>5,629</b>	<b>–</b>	<b>5,629</b>
<b><i>Comprehensive income</i></b>			
Net profit for the period	–	4,215,695	4,215,695
<b><i>Other comprehensive income</i></b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total comprehensive income</b>	<b>–</b>	<b>4,215,695</b>	<b>4,215,695</b>
<b><i>Transactions with owners</i></b>			
New issue of shares through down payment	48,371	–	48,371
<b>Total transactions with owners</b>	<b>48,371</b>	<b>–</b>	<b>48,371</b>
<b>Balance at 31 December 2016</b>	<b>54,000</b>	<b>4,215,695</b>	<b>4,269,695</b>

## PARENT COMPANY – INCOME STATEMENT

Amounts in EUR	Notes	3 Mar – 31 Dec 2016
Revenue		–
Personnel expenses	6	–
Consulting expenses	7	(61,386)
Other operating expenses		–
<b>Operating profit</b>		<b>(61,386)</b>
Income from participation in Group companies	16	150,000
Financial income	8, 16	528,667
Financial expenses	8	(519,699)
<b>Net financial income / (expense)</b>		<b>158,968</b>
<b>Profit before income tax</b>		<b>97,582</b>
Tax income / (expense)	9	–
<b>Net profit for the period</b>		<b>97,582</b>

PARENT COMPANY –  
STATEMENT OF COMPREHENSIVE INCOME

Amounts in EUR	3 Mar – 31 Dec 2016
<b>Net profit for the period</b>	<b>97,582</b>
<b>Other comprehensive income for the period</b>	
<i>Items that will not be reclassified to profit or loss</i>	–
<i>Items that may subsequently be reclassified to profit or loss</i>	–
<b>Total other comprehensive income for the period, net of tax</b>	–
<b>Total comprehensive income for the period</b>	<b>97,582</b>

## PARENT COMPANY – BALANCE SHEET

As at 31 December Amounts in EUR	Notes	2016
<b>ASSETS</b>		
<i>Non-current assets</i>		
Shares in other group companies	17	97,921
<b>Total non-current assets</b>		<b>97,921</b>
<i>Current assets</i>		
Receivables from other group companies	16	415,879
Loans to other group companies	16	3,217,473
Prepaid expenses and accrued interest income		221,584
Cash and cash equivalents	12	2,816,463
<b>Total current assets</b>		<b>6,671,399</b>
<b>TOTAL ASSETS</b>		<b>6,769,320</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>		
<i>Shareholders' equity</i>		
Share capital	13	54,000
Retained earnings including net earnings for the period		97,582
<b>Total shareholders' equity</b>		<b>151,582</b>
<i>Non-current liabilities</i>		
Payables to other group companies	16	101,386
<b>Total non-current liabilities</b>		<b>101,386</b>
<i>Current liabilities</i>		
Accounts payable	15	82,564
Bond loan	14, 15	6,183,879
Payables to other group companies	16	56,210
Accrued interest	15	193,699
<b>Total current liabilities</b>		<b>6,516,352</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>		<b>6,769,320</b>



## PARENT COMPANY – CASH FLOW STATEMENT

Amounts in EUR	3 Mar – 31 Dec 2016
<b>Cash flow from operating activities</b>	
Operating profit / (loss)	(61,386)
Other items not affecting cash	(77,227)
Interest paid	(324,729)
Interest received	313,254
<b>Cash flow from operating activities before working capital changes</b>	<b>(150,088)</b>
<b>Working capital adjustments</b>	
(Increase) / decrease in other receivables	(221,584)
Increase / (decrease) in accounts payable	82,564
Increase / (decrease) in other current liabilities	351,295
<b>Net cash flow from operating activities</b>	<b>62,187</b>
<b>Cash flow from investing activities</b>	
Loans to group companies	(10,529,219)
Repayment of loans to group companies	7,311,746
<b>Net cash flow received / (used) in investing activities</b>	<b>(3,217,473)</b>
<b>Cash flow from financing activities</b>	
Proceeds from issuance of ordinary shares	54,000
Proceeds from issuance of loans	10,453,000
Repayment of loans	(4,535,000)
<b>Net cash flow received / (used) in financing activities</b>	<b>5,972,000</b>
<b>Cash flow for the period</b>	<b>2,816,714</b>
Cash and cash equivalents less bank overdrafts at beginning of the period	–
Foreign exchange gains / (losses) on cash and cash equivalents	(251)
<b>Cash and cash equivalents less bank overdrafts at end of the period</b>	<b>2,816,463</b>

## PARENT COMPANY – STATEMENT OF CHANGES IN EQUITY

Amounts in EUR	Share capital	Retained earnings	Total equity
<b>Balance at 3 March 2016</b>	<b>5,629</b>	<b>–</b>	<b>5,629</b>
<b>Comprehensive income</b>			
Net profit for the period	–	97,582	97,582
<b>Other comprehensive income</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total comprehensive income</b>	<b>–</b>	<b>97,582</b>	<b>97,582</b>
<i>Transactions with owners</i>			
New issue of shares through down payment	48,371	–	48,371
<b>Total transactions with owners</b>	<b>48,371</b>	<b>–</b>	<b>48,371</b>
<b>Balance at 31 December 2016</b>	<b>54,000</b>	<b>97,582</b>	<b>151,582</b>

At 31 December 2016 the number of outstanding shares in DDM Debt AB amounts to 54,000 shares, with a quota of 1 per share.

**NOTE 1. GENERAL INFORMATION**

DDM Debt AB (publ) ("DDM Debt" or "the Company") and its subsidiaries (together "DDM Debt Group" or "the Group") provide liquidity to lenders in certain markets by acquiring distressed consumer debt, enabling the lenders to continue providing loans to companies and individuals. DDM Debt Group then assists the consumers to restructure their overdue debt.

The Company was registered on 3 March 2016, and changed from a private limited liability company to a public limited liability company on 26 May 2016. DDM Debt is a wholly owned subsidiary of DDM Finance AB, Stockholm, Sweden, being a wholly owned subsidiary of DDM Group AG, Baar, Switzerland. DDM Invest VII AG, Switzerland, and DDM Invest VII d.o.o., Slovenia, are wholly owned subsidiaries of DDM Debt.

DDM Debt acts solely as an issuer of financial instruments and extends this funding intra-group whereas DDM Group AG acts as the investment manager and take all decisions regarding investments and allocation of resources.

The Parent Company, DDM Debt AB (publ) is a limited liability company with registered offices in Stockholm, Sweden and its Swedish Corporate ID No. is 559053-6230. The address of the main office and postal address is Västmannagatan 4, SE-111 24, Stockholm, Sweden.

All amounts are reported in Euros (EUR) unless stated otherwise. Rounding differences might occur.

On March 12, 2017, the Board of Directors approved the financial statements for publication.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****2.1 – Basis of preparation**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, as well as in accordance with RFR 1 *Supplementary Accounting Principles for Groups* and the Annual Accounts Act. DDM Debt Group has evaluated the differences between the IFRS as adopted by the EU and the IFRS approved by the IASB with influence on the DDM group's financial statements, and concluded that there are no material differences.

The consolidated financial statements have been prepared on the basis of historical cost modified with the revaluation of financial assets and financial liabilities at fair value through profit or loss. Distressed asset portfolios are measured at amortized cost using the effective interest rate method, adjusted for revaluation and impairment.

The most important accounting policies applied in these consolidated financial statements are presented below.

The preparation of financial statements in conjunction with IFRS requires the application of certain important estimates for accounting purposes. Furthermore, it is required that management undertakes a number of assessments as regards to the application of the Group's accounting policies. Areas involving a high degree of assessment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are referred to in note 4.

The accounts of the Parent Company have been prepared in accordance with RFR 2 *Accounting for Legal Entities* and the Annual Accounts Act. The instances in which the Parent Company applies accounting principles differing from those of the Group are provided separately at the end of this section on accounting principles.

**Accounting standards and amendments issued but not yet adopted in 2016**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements.

The following standards and amendments are applicable but are not expected to have a significant effect on the consolidated financial statements of the Company:

**(i) IFRS 15 Revenue from contracts with customers**

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer, replacing the existing notion of risks and rewards. Effective date: 1 January 2018.

DDM Debt Group expects there to be no impact on its financial statements, as revenue on invested assets is the result of the application of the amortized cost method.

**(ii) IFRS 16 Leases**

IFRS 16 will primarily affect the accounting of lessees and will result in the recognition of almost all leases on balance sheet. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. Effective date: 1 January 2019.

DDM Debt Group expects there to be no impact on its financial statements as it has only short-term and low-values leases, and can therefore apply the optional exemption.

**NOTE 2. SUMMARY OF SIGNIFICANT... continued****(iii) IFRS 9 'Financial instruments'**

IFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard is effective for accounting periods beginning on or after 1 January 2018. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through Other Comprehensive Income (OCI) and fair value through the income statement.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit loss (ECL) model that replaces the incurred loss impairment model used in IAS 39. The ECL model involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes. The stage dictates how an entity measures impairment losses and applies the effective interest rate method. DDM has this relevant data as this is a key competence for DDM when performing due diligence and negotiating a portfolio acquisition. DDM's current interpretation is that the ECL model will not have an impact on the distressed asset portfolios, as the lifetime ECLs are included in the estimated cash flows when calculating the effective interest rate on initial recognition of such assets. In contrast, the ECL model would be fully applicable for assets which are not distressed at initial recognition, such as financial lease assets or other consumer debts. Influenced by the timing of the acquisition, the recognition of the day-one-loss would have a potential negative impact on the income statement for the period. However, as this is not its main business, DDM in general does not expect a significant impact. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

DDM continues to assess the impact of IFRS 9 on its current accounting treatment for invested assets. In general, DDM does not expect that this will have a material impact due to the fact that the Group's business model is to invest in distressed assets. However, in rare circumstances it might be the case that collateralized assets will fail the SPPI-test (that an asset's contractual cash flows represent 'solely payment of principal and interest'), and therefore have to be treated differently. However, DDM has concluded that this will not have a material impact on the recognition and valuation of the assets.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the DDM Debt Group.

**2.2 – Consolidated accounts****Subsidiaries**

Subsidiaries are all entities over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The following entities are included in the scope of consolidation:

Entities included in the scope of consolidation	Consolidation method	Domicile	31 Dec 2016
DDM Invest VII AG	Fully consolidated	Switzerland	(100%)
DDM Invest VII d.o.o.	Fully consolidated	Slovenia	(100%)

The purchase method is used for the reporting of the Group's business combinations. The purchase price for the acquisition of a subsidiary consists of the fair value of the transferred assets, liabilities and the shares issued by the Group. The purchase price also includes the fair value of any assets or liabilities, arising as a result of an agreement on a conditional purchase price. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at acquisition date. For each acquisition, the Group determines whether any non-controlling influence in the acquired company is reported at fair value or whether the acquisition is reported as the proportionate share of the holding in the acquired company's net assets.

**NOTE 2. SUMMARY OF SIGNIFICANT... continued**

The amount by which the purchase price, any non-controlling influence and the fair value at acquisition date of the previous shareholding exceeds the fair value of the Group's share of identifiable net assets acquired is recorded as goodwill. If the amount is less than the fair value of the acquired assets, in the event of so-called "bargain purchase", the difference is reported directly in the income statement.

*Transactions with shareholders without any controlling influence*

The Group applies the principle of recording transactions with shareholders without controlling influence as transactions with the Group's shareholders. In the case of acquisitions from shareholders without controlling influence, the difference between the paid purchase price and the actual acquired share of the book value of the subsidiary's net assets is recorded in equity. Gains and losses on disposals to shareholders without controlling influence are also recorded in equity.

**2.3 – Segment reporting**

The one operating segment in the DDM Debt Group is reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, is identified as the Chief Executive Officer of DDM Group that makes strategic decisions. The DDM Debt Group reports one segment, consistent with the DDM Group policy.

**2.4 – Foreign currency translation***Functional and presentation currency*

Items included in the financial statements of each of DDM Debt Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Euros (EUR), which is the Parent Company's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currency are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rates on each balance sheet date, are reported in the income statement.

Foreign exchange gains and losses referring to loans and borrowings would, if applicable, be reported in net financial income / expense.

*Group companies*

All of the DDM Debt entities have Euros (EUR) as their functional currency.

**2.5 – Financial assets and liabilities***Classification*

The DDM Debt Group classifies its financial assets and liabilities in the following categories: loans and receivables and other financial liabilities. The classification depends on the purpose for which the financial assets or liabilities were acquired.

*(a) Loans and receivables*

Loans and receivables are non-derivative financial assets, with fixed or determinable payments that are not quoted in an active market. DDM Debt Group's loans and receivables comprise trade receivables and cash and cash equivalents and are included in current assets due to their short-term nature. Loans and receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

*(b) Other financial liabilities*

The borrowings of the DDM Debt Group (including borrowings from credit institutions and other long-term borrowings) and accounts payable are classified as other financial liabilities and are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

*Recognition and measurement*

Purchases and sales of financial assets and liabilities are reported on the trade date which is the date on which the DDM Debt Group commits to purchase or sell the asset or liability. Financial assets and liabilities are initially reported at fair value plus transaction costs. Financial assets are de-recognized when the right to receive cash flows from the investments has expired or has been transferred and the DDM Debt Group has transferred, substantially, all risks and rewards of ownership. Financial liabilities are de-recognized in the balance sheet when the commitment in the agreement has been fulfilled or otherwise extinguished.

Loans and receivables, held-to-maturity financial assets and other financial liabilities are reported at amortized cost using the effective interest method.

*Offsetting financial instruments*

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. All financial assets and liabilities are presented as gross amounts in the DDM Debt Group and the Parent Company's financials, and therefore offsetting of financial assets and liabilities has not been disclosed.

**NOTE 2. SUMMARY OF SIGNIFICANT... continued***Impairment of financial assets*

DDM Debt Group assesses, at the end of each reporting period, whether there is objective evidence that there is a need for impairment of a financial asset or group of financial assets. A need for impairment of a financial asset or group of financial assets exists as a consequence of one or more events occurring after the initial reporting of the asset and of this event having an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

*(c) Accounts receivable*

Accounts receivable are reported initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties on behalf of the debtor, the probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indications that the account receivable is impaired. The amount of the provision is the difference between the asset's book value and the present value of estimated future cash flows, discounted at the original effective interest rate. Both losses regarding accounts receivable and recoveries of accounts receivable previously written off are reported in the line 'Revenue on invested assets' in the income statement. The book value of accounts receivable, after any impairment, is presumed to correspond to their fair value, as this item is of a short-term nature.

*(d) Distressed asset portfolios*

The recognition of the acquisition of distressed asset portfolios is based on the DDM Debt Group's own forecast of future cash flows from acquired portfolios. Distressed asset portfolios consist mainly of portfolios of non-performing consumer debts purchased at prices significantly below their principal value. Such assets are

classified as non-current assets. Reporting follows the effective interest method, where the carrying value of each portfolio corresponds to the present value of all projected future cash flows discounted by an initial effective interest rate determined on the date the portfolio was acquired, based on the relation between cost and the projected future cash flows on the acquisition date. Changes in the carrying value of the portfolios are reported as amortization, revaluation and impairment for the period.

If the fair value of the investment at the acquisition date exceeds the purchase price, the difference results in a "gain on bargain purchase" in the income statement within the line "net collections". The gain on bargain purchase relates to the fair value measurement of the investment (purchase price allocation).

Distressed asset portfolios are reported at amortized cost using the effective interest method. The initial effective interest rate is calculated for each portfolio based on its purchase price including transaction costs and estimated cash flows that, based on a probability assessment, are expected to be received from the debtors of the corresponding portfolio net of collection costs. Current cash flow projections are monitored over the course of the year and updated based on, among other things, achieved collection results and macroeconomic information. If the cash flow projections are revised, the carrying amount is adjusted to reflect actual and revised estimated cash flows. DDM Debt Group recalculates the carrying amount by computing the present value of estimated future cash flows using the original effective interest rate. Changes in cash flow forecasts are treated symmetrically i.e. both increases and decreases in forecast cash flows affect the portfolios' book value and as a result "Revenue on invested assets". If there is objective evidence that one or more events have taken place that will have a positive impact on the timing or amount of future cash flows, or a negative impact on the timing of future cash flows then this is recorded within the line "Revaluation of invested assets".

The DDM Debt Group assesses at each reporting date whether there is objective evidence that a portfolio is impaired. A portfolio is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the portfolio that can be reliably estimated. This is recorded within the line "Impairment of invested assets".

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated income statement (within the line "Impairment of invested assets").

**NOTE 2. SUMMARY OF SIGNIFICANT... continued**

If the Company sells a portfolio for a higher or lower amount than its carrying value, the resulting gain or loss on disposal is recognized in the consolidated income statement (within the lines "Revaluation of invested assets" and "Impairment of invested assets" respectively).

For further information on the Group's distressed asset portfolios, see also note 10.

**(e) Cash and cash equivalents**

Cash and cash equivalents include cash in hand, cash deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are reported as borrowings among current liabilities.

**(f) Accounts payable**

Accounts payable are reported initially at fair value and subsequently measured at amortized cost using the effective interest method. The book value of an accounts payable is expected to correspond with the fair value of the account payable, as this item is of a short-term nature.

**(g) Borrowings**

Borrowings from credit institutions and other long-term payables are initially reported at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is reported in the income statement over the period of the borrowings, using the effective interest method for long-term borrowings and the straight-line method for borrowings with a total contract length of less than 12 months.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

Costs to secure financing are amortized across the term of the loan as financial expenses in the consolidated income statement. The amount is recognized in the balance sheet as a deduction to the loan liability. All other borrowing costs (interest expenses and transaction costs) are reported in the income statement in the period to which they refer.

**2.6 – Share capital**

Ordinary shares are classified as equity. Transaction costs directly attributable to the issuance of new shares are reported in equity as a deduction, net of tax, from the proceeds.

**2.7 – Current tax and deferred income tax**

The current income tax charge is calculated on the basis of the tax laws enacted, or substantively enacted, at the balance sheet date in the countries in which the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to

circumstances in which the applicable tax regulation is subject to interpretation. Management establishes provisions, where appropriate, on the basis of the amounts expected to be paid to the tax authorities.

Deferred income tax is reported, using the balance sheet method, on temporary differences arising between the tax bases of assets and liabilities and their book values in the consolidated financial statements. However, deferred income tax is not accounted for if it arises from the initial reporting of an asset or liability in a transaction other than a business combination that, at the time of the transaction, impacts neither reported or fiscal results. The deferred income tax is determined using tax rates (and laws) that have been enacted, or substantively enacted, at the balance sheet date and which are expected to apply when the related deferred income tax asset is realized, or when the deferred income tax liability is settled.

Deferred income tax assets on temporary differences and tax losses carried-forward are reported to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilized. The amount of deferred tax assets is reduced when they are utilised or when it is no longer deemed likely that they will be utilised.

**2.8 – Provisions**

Provisions are reported when the Group has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation, and when the amount can be reliably estimated. No provisions have been recognized for the period. Provisions are not reported for future operating losses.

Provisions are valued at the present value of the expenditures expected to settle the obligation using a pre-tax discount rate reflecting current market assessments of the time value of money and the risks specific to the provision. The successive increase in the total amount of the provision incurred, due to the provision continuing to be reported over a long period of time, is reported as an interest expense.

**2.9 – Revenue recognition**

Interest income on financial instruments such as distressed asset portfolios are recognized over the course of maturity according to the effective interest method. DDM Debt Group reduces the value of a distressed asset to the recoverable amount, which consists of the future expected cash flow discounted with the initially calculated effective interest rate for the financial instrument if an instrument has depreciated in value and continues to dissolve the discounting effect as an interest income. Interest income on impaired instruments are recognized at the initially calculated effective interest rate.

**NOTE 2. SUMMARY OF SIGNIFICANT... continued****2.10 – Dividend distribution**

Dividend distribution to the Company's shareholders is reported as a liability in the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

No dividends will be proposed to the 2017 annual general meeting regarding the operations for 2016.

**2.11 – Parent Company accounting principles**

The accounting principles of the Parent Company are, in all material aspects, consistent with the accounting principles of the Group.

The Parent Company's financial reports have been prepared in accordance with RFR 2 *Reporting for Legal Entities* and the Annual Accounts Act. RFR 2 stipulates exceptions from and supplements to the standards issued by IASB and interpretations thereof issued by IFRIC. The exceptions and supplements are to be applied from the date on which the legal entity applies the standard or statement in question in its consolidated financial statements.

For its financial reporting, the Parent Company applies the design stated in the Annual Accounts Act, implying, among other things, that a different presentation form is applied for equity.

Shares in subsidiaries are reported at accrued acquisition value less any impairment. If there is an indication that shares and participations in subsidiaries have decreased in value, the recoverable amount is calculated. If this amount is lower than the book value, impairment is carried out. Impairment is reported in the item profit/loss from participation in Group companies.

**2.12 – Definitions of key ratios**

**Applied in the "Financial summary" in the administration report**

*Operating margin, %:* Operating profit / (loss) as a percentage of revenue on invested assets.

**NOTE 3. FINANCIAL RISK MANAGEMENT**

The DDM Debt Group's activities expose it to a variety of financial and non-financial risks: market risks (currency risk and interest rate risk), credit risk, liquidity risk/financing risk and risk relating to the purchase of distressed asset portfolios.

Risk management is carried out by DDM Group in accordance with policies established by the Board of Directors. DDM Group identifies and evaluates financial risks in close co-operation with DDM Debt's CEO and Board of Directors. The Board provides a comprehensive financial policy for risk management, specified into separate sections for the various areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk and financing risk. The Group does not apply so-called hedge accounting in accordance with the regulations in IAS 39.

**Market risk***(i) Foreign exchange risk*

DDM is an international group with operations in several countries. DDM Debt's reporting currency is Euros (EUR). As at 31 December 2016 all of DDM Debt's subsidiaries use Euros as their reporting currencies, and the distressed asset portfolios held in the Group are denominated in Euros. Therefore there is currently no exposure in the Group to foreign exchange risk due to fluctuations in foreign exchange rates that may impact DDM Debt's results and equity.

Exposure to currency fluctuations is usually specified according to two main categories: translation exposure and transaction exposure.

*Translation exposure*

If applicable, the foreign subsidiaries' assets less liabilities would comprise a net investment in foreign currency which, at consolidation, would give rise to a translation difference. Such translation differences would be included directly in DDM Debt Group's equity and reported in Reserves. DDM Debt Group has no hedging of net investments in foreign currency. A similar form of translation exposure would, if applicable, be found in the profit or loss arising in the foreign subsidiaries during the year, which would impact equity in the foreign subsidiaries on an on-going basis. Similar to the description of net investments in foreign subsidiaries above, no profit or loss arising during the year would be hedged.

*Transaction exposure*

Transaction exposure refers both to the exposure attributable to commercial flows, that is, sales and purchases across international borders, and the exposure from financial flows.

In terms of currency risk, DDM Debt Group's operations are characterized by collections and collection costs mainly performed in local currency in the respective countries. DDM Debt Group does not use any hedging instruments. As part of cash management DDM Debt Group is striving to maintain cash in the different currencies they are exposed to. See also notes 10 and 11 regarding currencies and foreign exchange risks.



*(ii) Cash flow and fair value interest rate risks*

As DDM Debt has no variable interest-bearing assets or liabilities, its income and operating cash flows are predominantly independent of any changes in market interest rates. DDM Debt's interest rate risk primarily arises from borrowings. Borrowings issued at fixed rates expose DDM Debt to fair value interest rate risk.

**Credit risk**

Credit risk is the risk that the counterparty in a financial transaction will not fulfil its obligations on the maturity date. Credit risk is managed by DDM Group and arises from cash and cash equivalents, and deposits with banks and financial institutions.

**Liquidity risk / Financing risk**

The aim of the capital structure is to secure DDM Debt Group's ability to continue its operations, in order to continue generating returns to its shareholders and to provide benefit for other stakeholders, and to maintain an optimal capital structure, minimizing the cost of capital.

The table below specifies the undiscounted cash flows arising from DDM Debt Group's liabilities in the form of financial instruments, based on the remaining period to the earliest contractual maturity date as at the balance sheet date. Amounts in foreign currencies and amounts that are to be paid based on floating interest rates are estimated using the exchange and interest rates applicable on the balance sheet date.

Group EUR	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years
<b>At 31 December 2016</b>				
Borrowings	6,797,665	-	-	-
Payables to other group companies	1,052,574	1,052,574	1,052,574	3,111,110
Loans from other group companies	-	-	-	7,518,387
Accrued expenses	932,344	-	-	-
Trade and other payables	64,837	-	-	-
<b>Total</b>	<b>8,847,420</b>	<b>1,052,574</b>	<b>1,052,574</b>	<b>10,629,497</b>

Parent Company EUR	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years
<b>At 31 December 2016</b>				
Borrowings	6,797,665	-	-	-
Payables to other group companies	56,210	101,386	-	-
Trade and other payables	82,564	-	-	-
<b>Total</b>	<b>6,936,439</b>	<b>101,386</b>	<b>-</b>	<b>-</b>

**Financial instruments by category**

Fair value is equal to carrying value of financial instruments.

Group EUR	Loans and receivables
<b>At 31 December 2016</b>	
<b>Assets as per balance sheet</b>	
Distressed asset portfolios	15,599,671
Trade and other receivables	1,043,842
Prepaid expenses and accrued income	5,120
Cash and cash equivalents	3,739,457
<b>Total</b>	<b>20,388,090</b>

Group EUR	Other financial liabilities
<b>At 31 December 2016</b>	
<b>Liabilities as per balance sheet</b>	
Bond loan	6,183,879
Payables to other group companies	1,005,962
Loans from other group companies	7,518,387
Trade and other payables	64,837
Accrued interest	412,986
Accrued expenses and deferred income	932 344
<b>Total</b>	<b>16,118,395</b>

### Fair values

DDM Debt Group considers there to be no material differences between the financial asset values in the consolidated balance sheet and their fair value. Invested assets are classified as loan receivables and recognized at amortized cost according to the effective interest rate method. The Group determines the carrying value by calculating the present value of estimated future cash flows at the invested assets' original effective interest rate. Adjustments are recognized in the income statement. In the Group's opinion, the market's yield requirements in the form of effective interest rates on new invested assets have remained fairly constant, despite turbulence in global financial markets in recent years. With this valuation method, the carrying value is the best estimate of the fair value of invested assets. Please note that the table below is only intended to illustrate how the use of fair value could be presented. DDM reports their loans at amortized cost and the table below should only be considered from an illustrative perspective.

Group EUR	IAS 39 category	Fair value category	31 Dec 2016
<b>Assets</b>			
<b>Fair value and carrying value of financial instruments</b>			
Accounts receivable	Loans and receivables at amortized cost	Level 2	199,972
Distressed asset portfolios	Loans and receivables at amortized cost	Level 3	15,599,671
<b>Liabilities</b>			
<b>Fair value and carrying value of financial instruments</b>			
Accounts payable	Financial liabilities at amortized cost	Level 2	64,837
Other payables	Financial liabilities at amortized cost	Level 2	1,345,330
Bond loan	Financial liabilities at amortized cost	Level 2	6,183,879

The levels in the hierarchy are:

Level 1 – Quoted prices on active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1, that are observable for the asset or liability either directly (such as prices) or indirectly (such as derived from prices).

Level 3 – Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs). The appropriate level is determined based on the lowest level of input that is essential for valuation at fair value.

The valuation technique for invested assets, as well as valuation sensitivity for changes in material data are described in the accounting principles and in note 4.

### Management of capital risk

Similar to other companies in the industry, DDM assesses its capital requirements on the basis of its equity/total assets ratio.

EUR	31 December 2016
<b>Total assets</b>	<b>20,388,090</b>
<b>Equity</b>	<b>4,269,695</b>

**Equity / total assets ratio** **20.9%**

### NOTE 4. CRITICAL ESTIMATES AND ASSUMPTIONS IN APPLYING THE GROUP'S ACCOUNTING PRINCIPLES

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events deemed to be reasonable under the circumstances. Furthermore, the decision to amend a cash flow projection is preceded by a discussion between operations and company management. All changes in cash flow projections are ultimately decided on by the CEO and Board of Directors. Please also refer to our website for additional information on risk factors affecting DDM Debt Group.

#### Critical accounting estimates and judgements

The Group undertakes estimates and assumptions concerning future developments. The resulting accounting estimates will, by definition, seldom equal actual results. The estimates and assumptions entailing a significant risk of a material adjustment to the book values of assets and liabilities within the next financial year are outlined as follows:

#### **Revenue recognition and measurement of acquired portfolios**

Distressed asset portfolios are financial instruments that are accounted for under IAS 39 and are measured at amortized cost using the effective interest method ("EIR"). The effective interest rate method is a method of calculating the amortized cost of a distressed asset portfolio and of allocating interest income over the expressed life of the portfolio; the allocated interest income is recorded as revenue on invested assets, in the financial statements. The EIR is the rate that exactly discounts estimated future purchased portfolio cash receipts through the expected life of the purchased portfolio. The EIR is determined at the time of purchase of the portfolio. The estimation of cash flow forecasts is a key estimation uncertainty fundamental within this critical accounting policy.

If the fair value of the investment at the acquisition date exceeds the purchase price, as in some cases DDM owns the economic benefit of net collections from the cut-off date, the difference results in a "gain on bargain purchase" in the income statement within the line "net collections". The gain on bargain purchase relates to the fair value measurement of the investment (purchase price allocation). This results in a benefit to cash flows, as the economic benefit is offset against the cash purchase price.

Upward revaluations are recognized as revenue. Subsequent reversals of such upward revaluations are

The portfolios are reviewed for any possible indications of impairment at the balance sheet date in accordance with IAS 39. Where portfolios exhibit objective evidence of impairment, an adjustment is recorded to the carrying value. If the forecasted collections exceed initial estimates, an adjustment is recorded as an increase to the carrying value and is included in revenue on invested assets. The estimation of cash flow forecasts is a key estimation uncertainty fundamental within this critical accounting policy. Estimates of cash flows that determine the EIR are established for each purchased portfolio and are based on our collection history with respect to portfolios comprising similar attributes and characteristics such as date of purchase, original credit grantor, type of receivable, customer payment history and customer location. Revaluations of portfolios are based on the rolling 120-month ERC ("Estimated remaining collections") at the revaluation date. The ERC is updated quarterly using a proprietary model. ERC represents an estimate of the undiscounted cash flows from our distressed asset portfolios at a point in time.

The Group estimates that a continuous decrease of net collections by 10% would result in a 10% decrease of the net present value, or book value, assuming that the forecasted collection curve remain unchanged. If collections consistently would exceed the originally forecasted amounts by 10%, the net present value, or book value, would be expected to increase by 10%. In addition, if collections would start later than originally forecasted, the net present value, and book value, are expected to be negatively impacted while be positively impacted should collections start earlier than originally forecasted.

See note 10 for the carrying value of distressed asset portfolios.

#### NOTE 5. RECONCILIATION OF REVENUE ON INVESTED ASSETS

Revenue on invested assets is the net amount of the cash collections (net of direct collection costs), amortization, revaluation and impairment of invested assets.

Net collections is comprised of gross collections from the distressed asset portfolios held by DDM, minus commission and fees to collection agencies. As the collection procedure is outsourced, the net amount of cash collected is recorded as "Net collections" within the line "Revenue on invested assets" in the consolidated income statement. DDM discloses the alternative performance measure "Net collections" in the notes separately, as it is an important measurement for DDM to monitor the performance of the portfolios and measure the cash available for operating expenses and to service its debt. DDM believes that disclosing net collections as a separate performance measure in the notes improves the transparency and understanding of DDM's financial statements and performance, meeting the expectations of its investors.

Collection costs are comprised of all expenses directly attributable to the collection of distressed asset portfolios, such as collection fees, commission, transaction costs, non-recoverable VAT on amounts collected and Swiss VAT where applicable. The collection costs differ from portfolio to portfolio depending on the country/jurisdiction and the specific features of the assets concerned.

Revenue on invested assets by country EUR	3 Mar – 31 Dec 2016
Slovenia	9,665,953
<b>Net collections</b>	<b>9,665,953</b>
Amortization of invested assets	(2,784,773)
<b>Interest income on invested assets before revaluation and impairment</b>	<b>6,881,180</b>
Revaluation of invested assets	–
Impairment of invested assets	–
<b>Revenue on invested assets</b>	<b>6,881,180</b>

The chief operating decision maker of DDM reviews the financial outcome as a whole. Analysis is performed on a portfolio-by-portfolio basis but the chief operating decision maker reviews the outcome of the group as a whole. Each portfolio is not considered to be an identifiable segment and the Group reports segment on an entity basis, i.e. one operating segment.

The Group discloses information regarding revenue on invested assets based on its key geographic areas.

No individual debtor generates more than ten percent of the DDM Debt Group's total revenues.

#### NOTE 6. PERSONNEL EXPENSES

The Parent Company and its subsidiaries had two employees in 2016. Personnel expenses were EUR 3,086.

#### Gender distribution of board members and other senior executives

The Board of Directors consists of three members, whereof three men. The DDM Debt Group has one managing director, whereof one man.

**NOTE 7. CONSULTING EXPENSES**

<b>Group EUR</b>	<b>2016</b>
Consultancy fees	(159,388)
PwC	
Audit assignments	(8,000)
Other audit related assignments	–
Tax assignments	–
Other consultancy assignments	–
DDM Group management fees	(740,014)
<b>Total</b>	<b>(907,402)</b>

<b>Parent Company EUR</b>	<b>2016</b>
Consultancy fees	(53 386)
Öhrlings PwC	
Audit assignments	(8,000)
Other audit related assignments	–
Tax assignments	–
Other consultancy assignments	–
<b>Total</b>	<b>(61,386)</b>

Audit assignment refers to the examination of the annual financial statements and accounting records, as well as the administration of the Board of Directors and the Managing Director. Other audit related assignments include tasks whose execution is the responsibility of the Company's auditors, as well as the provision of advisory services or other assistance resulting from observations made during such assignments. All else comprises tax assignments or other consultancy assignments.

**NOTE 8. NET FINANCIAL EXPENSES**

<b>Group EUR</b>	<b>2016</b>
<b>Financial income</b>	
Interest income	43
<b>Total financial income</b>	<b>43</b>
<b>Financial expenses</b>	
Interest expense	(991,960)
Amortization of transaction costs	(265,879)
Other financial expenses	(2,167)
Realized exchange gains / (losses)	1,453
Unrealized exchange gains / (losses)	(6,933)
<b>Total financial expenses</b>	<b>(1,265,487)</b>
<b>Net financial expenses</b>	<b>(1,265,444)</b>

<b>Parent EUR</b>	<b>2016</b>
<b>Financial income</b>	
Interest income	528,667
<b>Total financial income</b>	<b>528,667</b>
<b>Financial expenses</b>	
Interest expense	(518,429)
Other financial expenses	(1,059)
Realized gains / (losses)	169
Unrealized gains / (losses)	(380)
<b>Total financial expenses</b>	<b>(519,699)</b>
<b>Net financial income / (expense)</b>	<b>8,968</b>

**NOTE 9. INCOME TAX**

<b>Group EUR</b>	<b>2016</b>
Current tax on profit for the period	(483,496)
<b>Total tax expense</b>	<b>(483,496)</b>

<b>Parent Company EUR</b>	<b>2016</b>
Current tax on profit for the period	–
<b>Total tax expense</b>	<b>–</b>

The differences between tax income / (expense) and an estimated tax income / (expense) based on current tax rates are as follows:

<b>Group EUR</b>	<b>2016</b>
Profit before tax	4,699,191
Income tax calculated in accordance with the Group's current tax rate	(469,919)
Current tax on profit for the period	–
Non-deductible expenses	–
Tax losses for which no deferred income tax asset was recognized	–
Effects of foreign tax rates	(13,577)
<b>Total tax expense</b>	<b>(483,496)</b>

<b>Parent Company EUR</b>	<b>2016</b>
Profit before tax	97,582
Income tax calculated at current tax rate (22%)	(21,468)
Non-taxable income	21,468
Tax losses for which no deferred income tax asset was recognized	–
<b>Total tax expense</b>	<b>–</b>
Weighted average tax rate in the group is	10.3%

**NOTE 10. DISTRESSED ASSET PORTFOLIOS**

EUR	31 December 2016
<b>Opening accumulated acquisition cost</b>	–
Acquisitions	18,384,444
Disposals	–
<b>Closing accumulated acquisition cost</b>	<b>18,384,444</b>
<b>Opening accumulated amortization, revaluation and impairment</b>	–
Amortization	(2,784,773)
Impairment	–
Reversal of impairment losses	–
Disposals	–
<b>Closing accumulated amortization, revaluation and impairment</b>	<b>(2,784,773)</b>
<b>Closing net book value</b>	<b>15,599,671</b>

The DDM Debt Group assesses at each reporting date whether there is objective evidence that a portfolio is impaired. A portfolio is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the portfolio that can be reliably estimated.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

During 2016, the Group has not reclassified any of its financial non-current assets, which have been valued at amortized cost, to assets valued at fair value.

In 2016, the DDM Debt Group only invested in portfolios that are denominated in EUR.

Net collections are distributed by currency as follows:

EUR	2016
EUR	9,665,953
<b>Total</b>	<b>9,665,953</b>

The carrying values of distressed asset portfolios owned by the DDM Debt Group are distributed as follows:

EUR	31 December 2016
EUR	15,599,671
<b>Total</b>	<b>15,599,671</b>

**NOTE 11. CURRENT RECEIVABLES**

Group EUR	31 December 2016
Accounts receivable	199,972
Less: provision for impairment of accounts receivable	–
Accounts receivable – net	199,972
Other receivables	842,452
Prepaid expenses and accrued income	5,120
<b>Total</b>	<b>1,047,544</b>
Group EUR	31 December 2016
Accounts receivable < 30 days	199,972
<b>Total</b>	<b>199,972</b>

The fair values of the Group's current receivables correspond to the book values.

**NOTE 12. CASH AND CASH EQUIVALENTS**

Group EUR	31 December 2016
Cash and cash equivalents	3,739,457
<b>Total</b>	<b>3,739,457</b>
Parent Company EUR	31 December 2016
Cash and cash equivalents	2,816,463
<b>Total</b>	<b>2,816,463</b>

At 31 December 2016, the majority of the DDM Debt Group's bank accounts were held with banks with credit ratings ranging from AA- to BB- as rated by Standard & Poor's.

**NOTE 13. SHARE CAPITAL**

The 54,000 shares have a quota of 1 per share. Each share entitles the holder to one vote. All registered shares as per the reporting date are fully paid.

**NOTE 14. BORROWINGS**

DDM Debt Group's borrowings mature in 2017. See note 3 for a description of contractual undiscounted cash flows.

A bond loan totaling EUR 11M was issued by DDM Debt in July 2016. The bond at 13% interest has a maturity date of 15 July 2017 and will be repaid during the period. Repayments of approximately EUR 4.5M were made in 2016, in accordance with the terms and conditions. DDM Debt AB's financial instrument contains a number of limits on certain financial indicators, all of which were complied with for the year ending 31 December 2016.

The financial instrument also contains certain restrictions limiting the ability to transfer cash or other assets to or from the DDM Debt group. DDM Debt AB has pledged the shares in its subsidiaries DDM Invest VII AG and DDM Invest VII d.o.o. as security under the terms and conditions of the EUR 11M bond issued in July 2016. In addition, DDM Finance AB has pledged the shares in DDM Debt AB. Certain bank accounts held by DDM Invest VII AG and DDM Invest VII d.o.o. were also assigned to the bond agent as part of the bond terms. DDM Holding AG and DDM Finance AB are guarantors of the EUR 11M bond. The Terms and Conditions are available in their entirety on our website.

**NOTE 15. CURRENT LIABILITIES**

<b>Group EUR</b>	<b>Less than 3 months</b>	<b>More than 3 months</b>	<b>Total</b>
<b>At 31 December 2016</b>			
Accounts payable	64,837	–	<b>64,837</b>
Bond loan	3,641,106	2,542,773	<b>6,183,879</b>
Accrued interest	412,986	–	<b>412,986</b>
Accrued expenses and deferred income	442,034	490,310	<b>932,344</b>
<b>Total</b>	<b>4,560,963</b>	<b>3,033,083</b>	<b>7,594,046</b>

<b>Parent Company EUR</b>	<b>Less than 3 months</b>	<b>More than 3 months</b>	<b>Total</b>
<b>At 31 December 2016</b>			
Accounts payable	82,564	–	<b>82,564</b>
Bond loan	3,641,106	2,542,773	<b>6,183,879</b>
Accrued interest	193,699	–	<b>193,699</b>
<b>Total</b>	<b>3,917,369</b>	<b>2,542,773</b>	<b>6,460,142</b>

**NOTE 16. TRANSACTIONS WITH RELATED PARTIES****Compensation to related parties**

<b>Group</b>	<b>Management</b>	<b>Interest</b>	
<b>EUR</b>	<b>fee</b>	<b>expense</b>	<b>Total</b>
<b>2016</b>			
DDM Group AG	(740,014)	-	<b>(740,014)</b>
DDM Holding AG	-	(473,532)	<b>(473,532)</b>
<b>Total</b>	<b>(740,014)</b>	<b>(473,532)</b>	<b>(1,213,546)</b>

**Receivables, payables and debts – related parties**

<b>Group</b>	<b>Current</b>	<b>Non-current</b>	
<b>EUR</b>			<b>Total</b>
<b>at 31 December 2016</b>			
Loan from DDM Holding AG	-	(7,518,387)	<b>(7,518,387)</b>
Payables to DDM Holding AG	-	(7,600)	<b>(7,600)</b>
Interest payable to DDM Holding AG	(219,287)	-	<b>(219,287)</b>
Payables to DDM Treasury Sweden AB	-	(3,365)	<b>(3,365)</b>
Payables to DDM Group AG	-	(994,997)	<b>(994,997)</b>
<b>Total</b>	<b>(219,287)</b>	<b>(8,524,349)</b>	<b>(8,743,636)</b>

**Compensation from related parties**

<b>Parent Company</b>	
<b>EUR</b>	<b>Total</b>
<b>2016</b>	
Interest income from DDM Invest VII AG	<b>528,667</b>
Transaction costs fee income from DDM Invest VII AG	<b>265,879</b>
Anticipated dividend income from DDM Invest VII AG	<b>150,000</b>
<b>Total</b>	<b>944,546</b>

**Receivables, payables and debts – related parties**

<b>Parent Company</b>	<b>Current</b>	<b>Non-current</b>	
<b>EUR</b>			<b>Total</b>
<b>at 31 December 2016</b>			
Loan to DDM Invest VII AG	3,217,473	-	<b>3,217,473</b>
Interest receivable from DDM Invest VII AG	215,413	-	<b>215,413</b>
Receivables from DDM Invest VII AG	415,879	-	<b>415,879</b>
Payables to DDM Invest VII AG	(56,210)	-	<b>(56,210)</b>
Payables to DDM Holding AG	-	(7,600)	<b>(7,600)</b>
Payables to DDM Treasury AB	-	(3,365)	<b>(3,365)</b>
Payables to DDM Group AG	-	(90,421)	<b>(90,421)</b>
<b>Total</b>	<b>3,792,555</b>	<b>(101,386)</b>	<b>261,648</b>

The Company has defined the Company's management, the Board of Directors in the Parent Company, DDM Debt AB (publ), the owners of DDM Debt AB (publ) and all subsidiaries included in the Group as related parties.

All related party transactions were made on terms equivalent to those that prevail in arm's length transactions. No interest is calculated on the current intercompany receivables / payables within the DDM Debt group.



**NOTE 17. PARTICIPATIONS IN GROUP COMPANIES**

Parent Company EUR	31 December 2016
Investment	97,921
<b>Total</b>	<b>97,921</b>

Parent Company EUR	Investment
At 3 March 2016	–
Acquisitions	97,921
<b>At 31 December 2016</b>	<b>97,921</b>

The Parent Company holds shares in the following subsidiaries:

EUR Company	Corporate identity number	Domicile	Proportion of equity	Net book value: 31 December 2016
DDM Invest VII AG	CHE 153.128.633	Switzerland	100%	90,421
DDM Invest VII d.o.o.	7109806000	Slovenia	100%	7,500
<b>Total</b>				<b>97,921</b>

**NOTE 18. PROPOSED APPROPRIATION OF EARNINGS**

The Parent Company's distributable funds are at the disposal of the Board of Directors as follows:

EUR	2016
Retained earnings	–
Net earnings for the period	97,582
<b>Total</b>	<b>97,582</b>

The Board of Directors propose that the earnings be distributed as follows:

EUR	2016
Balance carried forward	97,582
<b>Total</b>	<b>97,582</b>

**NOTE 19. PLEDGED ASSETS AND CONTINGENT LIABILITIES**

The Parent Company has pledged the shares in the subsidiaries DDM Invest VII AG and DDM Invest VII d.o.o. as security under the terms and conditions of the EUR 11M bond issued in July 2016. In addition, DDM Finance AB has pledged the shares in DDM Debt AB. Certain bank accounts held by DDM Invest VII AG and DDM Invest VII d.o.o. were also assigned to the bond agent as part of the bond terms.

The Parent Company's pledged collateral in the form of shares held in the subsidiaries amounts to EUR 97,921. Bank accounts of the Group totaling EUR 822,145, were assigned to the bond agent at 31 December 2016. In addition, the Parent Company had a bank guarantee of EUR 5,234 at 31 December 2016. Neither the DDM Debt Group nor the Parent Company has any other pledged assets, contingent liabilities or other items to report.

**NOTE 20. EVENTS AFTER THE BALANCE SHEET DATE**

In January 2017 DDM Debt made further loan repayments of approximately EUR 3.4M on the EUR 11M bond issued in July.

EUR 50M of senior secured bonds at 9.5% were issued by DDM Debt AB in January, with the proceeds used to refinance existing debt within the DDM Holding Group and to acquire DDM Treasury Sweden AB's subsidiaries holding the portfolios, with the balance to be used for future portfolio acquisitions.

## Reconciliation tables, non-IFRS measures

This section includes a reconciliation of certain non-IFRS financial measures to the most directly reconcilable line items in the financial statements. The presentation of non-IFRS financial measures has limitations as analytical tools and should not be considered in isolation or as a substitute for our related financial measures prepared in accordance with IFRS.

Non-IFRS financial measures are presented to enhance an investor's evaluation of ongoing operating results, to aid in forecasting future periods and to facilitate meaningful comparison of results between periods. Management uses these non-IFRS financial measures to, among other things, evaluate ongoing operations in relation to historical results and for internal planning and forecasting purposes.

The non-IFRS financial measures presented in this report may differ from similarly-titled measures used by other companies.

### Net collections:

Net collections is comprised of gross collections from the distressed asset portfolios held by DDM, minus commission and fees to collection agencies. As the collection procedure is outsourced, the net amount of cash collected is recorded as "Net collections" within the line "Revenue on invested assets" in the consolidated income statement. DDM discloses the alternative performance measure "Net collections" in the notes separately, as it is an important measurement for DDM to monitor the performance of the portfolios and measure the cash available for operating expenses and to service its debt. DDM believes that disclosing net collections as a separate performance measure in the notes improves the transparency and understanding of DDM's financial statements and performance, meeting the expectations of its investors.

### Amortization, revaluation and impairment of invested assets:

The recognition of the acquisition of distressed asset portfolios is based on the DDM Group's own forecast of future cash flows from acquired portfolios. Reporting follows the effective interest method, where the carrying value of each portfolio corresponds to the present value of all projected future cash flows discounted by an initial effective interest rate determined at the time the portfolio was purchased, based on the relation between cost and the projected future cash flows on the acquisition date. Changes in the carrying value of the portfolios are reported as amortization, revaluation and impairment for the period.

### Operating expenses and Cash EBITDA:

Amounts in EUR	3 Mar – 31 Dec 2016
Net collections	9,665,953
Personnel expenses	(3,086)
Consulting expenses	(907,402)
Other operating expenses	(6,057)
Operating expenses	(916,545)
Cash EBITDA	8,749,408

### Net debt:

Bond loan	6,183,879
Interest-bearing loans from other group companies	7,518,387
Less: Cash and cash equivalents	(3,739,457)
Net debt	9,962,809

## SIGNATURES

The Group's income statement and balance sheet will be presented for adoption at the Annual General Meeting on 31 May 2017.

The information in this Annual Report is mandatory for DDM Debt AB (publ) to publish in accordance with the EU Market Abuse Regulation and the Securities Markets Act.

This information was submitted to the market for publication on 22 March 2017.

The Board of Directors and Chief Executive Officer certify that the Annual Report gives a true and fair view of the Parent Company's and Group's operations, financial position and results of operations and describes the material risks and uncertainty factors facing the Parent Company and the companies included in the Group.

Stockholm, 12 March 2017

Kent Hansson  
Chairman of the board

Fredrik Waker  
Board member

Manuel Vogel  
Board member

Torgny Hellström  
Board member

Gustav Hultgren  
CEO

Our Audit Report was presented on 13 March 2017

Öhrlings PricewaterhouseCoopers AB

Daniel Algotsson  
Authorized Public Accountant

## AUDITOR'S REPORT (translation)

To the general meeting of the shareholders of DDM Debt AB (publ), corporate identity number 559053-6230.

### Report on the annual accounts and consolidated accounts

#### *Opinions*

We have audited the annual accounts and consolidated accounts of DDM Debt AB (publ) for the year financial year 2016-03-03 – 2016-12-3. The annual accounts and consolidated accounts of the company are included on pages 5-32 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2016 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2016 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

We therefore recommend that the general meeting of shareholders adopts the income statement and balance sheet for the parent company and the group.

#### *Basis for Opinions*

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

#### *Other Information than the annual accounts and consolidated accounts*

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises page 1-4 but does not include the annual accounts, consolidated accounts and our auditor's report thereon.

Our opinion on the annual accounts and consolidated accounts does not cover this other information and we do not express any form of assurance conclusion regarding this other information.

In connection with our audit of the annual accounts and consolidated accounts, our responsibility is to read the information identified above and consider whether the information is materially inconsistent with the annual accounts and consolidated accounts. In this procedure we also take into account our knowledge otherwise obtained in the audit and assess whether the information otherwise appears to be materially misstated.

If we, based on the work performed concerning this information, conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

#### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors and the Managing Director are responsible for the preparation of the annual accounts and consolidated accounts and that they give a fair presentation in accordance with the Annual Accounts Act and, concerning the consolidated accounts, in accordance with IFRS as adopted by the EU. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of annual accounts and consolidated accounts that are free from material misstatement, whether due to fraud or error.

In preparing the annual accounts and consolidated accounts, The Board of Directors and the Managing Director] are responsible for the assessment of the company's and the group's ability to continue as a going concern. They disclose, as applicable, matters related to going concern and using the going concern basis of accounting. The going concern basis of accounting is however not applied if the Board of Directors and the Managing Director intends to liquidate the company, to cease operations, or has no realistic alternative but to do so.

### *Auditor's responsibility*

Our objectives are to obtain reasonable assurance about whether the annual accounts and consolidated accounts as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and generally accepted auditing standards in Sweden 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 annual accounts and consolidated accounts.

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on Revisorsnämnden's website: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report.

## **Report on other legal and regulatory requirements**

### *Opinions*

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of DDM Debt AB for the financial year 2016-03-03 – 2016-12-31 and the proposed appropriations of the company's profit or loss.

We recommend to the general meeting of shareholders that the profit be appropriated in accordance with the proposal in the statutory administration report and that the members of the Board of Directors and the Managing Director be discharged from liability for the financial year.

### *Basis for Opinions*

We conducted the audit in accordance with generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the *Auditor's Responsibilities* section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our 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 opinions.

### *Responsibilities of the Board of Directors and the Managing Director*

The Board of Directors is responsible for the proposal for appropriations of the company's profit or loss. At the proposal of a dividend, this includes an assessment of whether the dividend is justifiable considering the requirements which the company's and the group's type of operations, size and risks place on the size of the parent company's and the group's equity, consolidation requirements, liquidity and position in general.

The Board of Directors is responsible for the company's organization and the administration of the company's affairs. This includes among other things continuous assessment of the company's and the group's financial situation and ensuring that the company's organization is designed so that the accounting, management of assets and the company's financial affairs otherwise are controlled in a reassuring manner. The Managing Director shall manage the ongoing administration according to the Board of Directors' guidelines and instructions and among other matters take measures that are necessary to fulfill the company's accounting in accordance with law and handle the management of assets in a reassuring manner.

### *Auditor's responsibility*

Our objective concerning the audit of the administration, and thereby our opinion about discharge from liability, is to obtain audit evidence to assess with a reasonable degree of assurance whether any member of the Board of Directors or the Managing Director in any material respect:

- has undertaken any action or been guilty of any omission which can give rise to liability to the company, or
- in any other way has acted in contravention of the Companies Act, the Annual Accounts Act or the Articles of Association.

Our objective concerning the audit of the proposed appropriations of the company's profit or loss, and thereby our opinion about this, is to assess with reasonable degree of assurance whether the proposal is in accordance with the Companies Act.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Sweden will always detect actions or omissions that can give rise to liability to the company, or that the proposed appropriations of the company's profit or loss are not in accordance with the Companies Act.

A further description of our responsibility for the audit of the administration is available on Revisorsnämnden's website: [www.revisorsinspektionen.se/rn/showdocument/documents/rev\\_dok/revisors\\_ansvar.pdf](http://www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf). This description is part of the auditor's report.

Stockholm 13 March 2017

Öhrlings PricewaterhouseCoopers AB

Daniel Algotsson

Authorized Public Accountant

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AND MANAGER OF  
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