DDM HOLDING AG

2018 ANNUAL REPORT

ddm

MULTINATIONAL INVESTOR
AND MANAGER OF
DISTRESSED ASSETS

The DDM Holding AG
2018 Annual Report

DDM Holding AG ("DDM" or the "Company") is a Swiss company headquartered in Baar. Corporate registration number CHE-115906312. DDM together with its subsidiaries are referred to as the "Group".

Values are expressed in euro (EUR), thousands of euros as EUR 000s and millions of euros as EUR M. Unless otherwise stated, figures in parentheses relate to the preceding financial year, 2017.

Data on markets and competitors are DDM's own estimates, unless another source is specified. This report contains forward-looking statements that are based on the current expectations of DDM'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.

Arctic Securities AS, Sweden branch is DDM Holding AG's Certified Adviser.

DDM's annual and interim reports are available in English from the Company's website >>.

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

Photos: Shutterstock (cover), Jacqueline Fellmann (p. 6, 17 and 18). Illustration: Idéfolket (p. 8).

Cover illustration: DDM secures your ultimate business ambitions.

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2018

H1

Kent Hansson, founder and Chairman of the Board of Directors became acting CEO from 5 February

Significant investment in the Balkans of about EUR 30M of corporate secured receivables

H2

Henrik Wennerholm, appointed CEO from 12 July

Strategic shift to invest in secured portfolios

Buy-out of co-investor in Hungary resulting in EUR 2M gain

Refinancing raised EUR 12M of senior secured bonds lowering the cost of funding

ERC 2018

Estimated Remaining Collections ("ERC") on 31 December 2018 amounted to EUR 240M.

For more information, see Accounting policies, page 50. Glossary and Financial definitions can be found on page 87.

2018 Highlights

This is DDM

Experienced specialist in an expanding sector

DDM is a specialized multinational investor and manager in non performing loans and special situations. Primarily DDM invests in corporate and consumer secured portfolios in Southern, Central and Eastern Europe but also unsecured portfolios. We work in close and longstanding relations with banks and financial institutions and provide solutions to recover outstanding distressed assets.

DDM has through its deep industry experience developed state-of-the-art processes for analysis, pricing and management of the acquired portfolios. We have a decentralized collection strategy based on partnerships with leading local collection agencies to optimise collections from each portfolio. Consequently, DDM has developed a successful business model allowing for flexibility, automated processes and speed in decision-making.

The banking sector in Southern, 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. Changing economic policies and business conditions have also stimulated international banks to review their strategies across the region. As a result, banks are increasingly looking to divest portfolios of distressed and other non-core assets. In addition, during the last few years, several larger financial institutions are exiting a number of countries in Southern, Central and Eastern Europe.

For sellers, management of portfolios of distressed assets is a sensitive issue as it concerns the relationship with their customers and therefore their brand reputation. So it is therefore critical for sellers of portfolios that the acquirer handles the underlying individual debtors professionally, ethically and with respect. DDM has longstanding relations with sellers of distressed assets, based on trust and the Company's status as a credible acquirer. DDM's expertize is key to assess the portfolios, as well as to decide how to open up a dialogue with the debtors. The goal is to establish an instalment plan and in the end achieve an amicable settlement where the debtor has repaid the outstanding amount. DDM evaluates a significant number of investment opportunities every year, resulting in a deep understanding of the market and the ability to identify the best investment opportunities.

The strong trend of increased transaction volumes is expected to continue. This, in combination with DDM's understanding of the complete collection process and a working model where DDM uses specialized local collection agencies instead of their own organization gives DDM a unique advantage on the market. Combined with a proprietary IT-system, relations with co-investors and a flexible business model this supports DDM's continued growth and its ambitions to maximize shareholder value.

Financial overview

EUR M	2018	2017	% change
Income statement:			
Net collections	65.7	37.4	76
Revenue from management fees	1.2	1.9	(37)
Cash EBITDA	57.7	32.3	79
Operating profit	22.1	13.2	67
Net profit for the year	4.8	0.7	586
Earnings per share, EUR	0.36	0.05	620
Cash flow statement:			
Cash flow from operating activities before working capital changes	43.7	21.6	102
Cash purchases of distressed asset portfolios and other long-term receivables from investments	42.3	95.6	(56)
Balance sheet:			
Total assets	194.5	183.6	6
Net debt	87.4	86.0	2
Equity ratio	18.4%	16.8%	10
Other:			
Average number of shares outstanding during the year	13,560,447	12,408,738	9
Total number of shares outstanding at the end of the year	13,560,447	13,560,447	–
Proposed dividend per share, EUR	0.00	0.00	–
Average number of employees	24	20	20

DDM's progress

2007 - 2009
- Incorporation of DDM with a unique business model
- Buildup of team, processes and IT system FUSION
- First external funding and initial investments made in Russia
- DDM headcount increased from 3 to 10+ people
- Entered Romania, the Czech Republic and Slovakia

2010 - 2014
- Strengthened the organization
- Embarked on its strategy to significantly scale up its operations
- Issued senior secured bonds of SEK 300M with subsequent listing on the NGM market place in Sweden in 2013
- New issue of 2.6 million shares, raising SEK 130M in equity capital
- Listing of DDM Holding AG on Nasdaq First North, Stockholm in 2014
- Broadened geographic scope: entered Slovenia, Poland and Macedonia re-entered Czech Republic

2015
- In cooperation with large investment partners, DDM made significant investments in Hungary
- Refinanced the SEK 300M senior secured bonds

2016
- New issue of 1,940,298 shares, raising approximately EUR 7M (SEK 65M) in equity capital before transaction costs
- Issued first Euro denominated bond of EUR 11M
- EUR 17M invested in Slovenia

2017
- EUR 85M of senior secured bonds issued at 9.5% to refinance existing debt and acquire portfolios, with listing on Nasdaq Stockholm
- New issue of 4,520,149 shares, raising approximately EUR 11M (SEK 104M) in equity capital before transaction costs
- Entered Greece, Croatia and Serbia
- Further investments in the Czech Republic and Slovenia
- EUR 17M Revolving credit facility secured
- EUR 10M bridge financing raised
- EUR 50M of senior secured bonds issued at 8%, with listing on Nasdaq Stockholm

2018
- **Strategic shift to invest in secured corporate portfolios with further investments in the Balkans, Hungary and the Czech Republic**
- **Refinancing raised EUR 12M of senior secured bonds**

2018 Highlights

Strategic shift to corporate secured portfolios

A year of record collections and lowering of financing costs

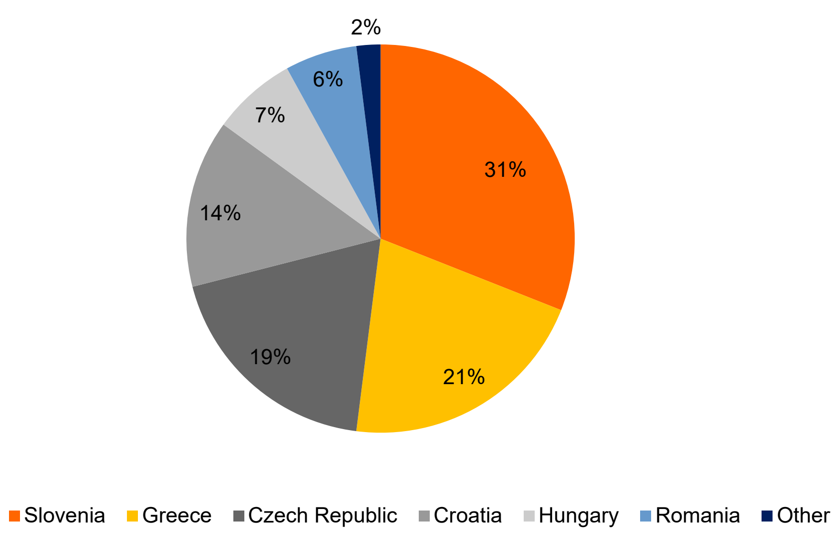
During 2018 DDM reported record net collections of EUR 65.7M supporting further investments in our established markets, that have great potential for future transactions and growth. These acquisitions have diversified our portfolio of investments in line with our strategy, by increasing our exposure to the corporate receivables segment. A key focus during the year has been to intensify the strategic shift from being an investor in unsecured consumer loans to becoming a specialized investor in secured corporate and consumer portfolios. To achieve this, Management has reviewed the business model and made organizational improvements to better position DDM as top-tier and effective workout partner. Total acquisitions made during 2018 totaled approximately EUR 43M, with a strong balance sheet and track-record to support significant growth in 2019.

In order to finance the growth significant progress was also made during the year to continue to lower the cost of funding when the Company successfully reached an agreement to refinance the EUR 10M senior secured bonds maturing on November 6, 2018 by way of issuing EUR 12M senior secured bonds. The bonds carry an interest rate of 7% per annum for the first six months and can be prolonged by the Company at 8% per annum for another six months. Funding of the business remains a focus area and we will continue to work on this going forward to further improve flexibility, decrease the cost of capital and support our rapid growth.

During 2018 we have continued to demonstrate our reputation as a reliable partner that can handle large and complex transactions in the distressed debt market. We continue to receive a significant number of invitations to participate in sales processes both in our existing markets and in new geographies, in line with our strategy for further expansion and continued growth.

Our continued expansion will be driven by our expertise, strong track-record and relationships in the market. We have an agile and flexible operating model that enables an opportunistic investment strategy, allowing us to capitalise on the opportunities available in the market. The challenge for DDM is to match the investment opportunities with access to funding, while continuing to decrease the cost of capital.

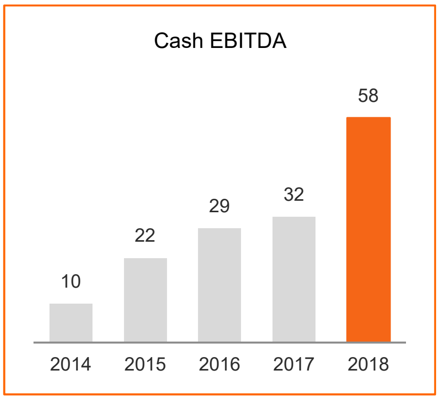
Net collections by country 2018

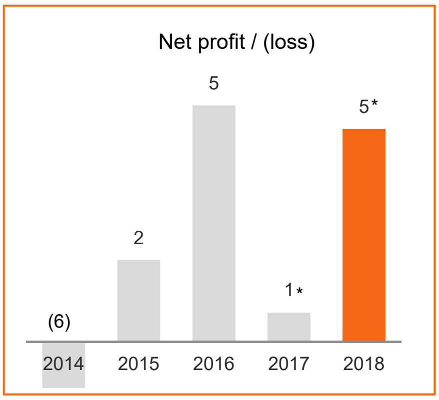


2018 Highlights

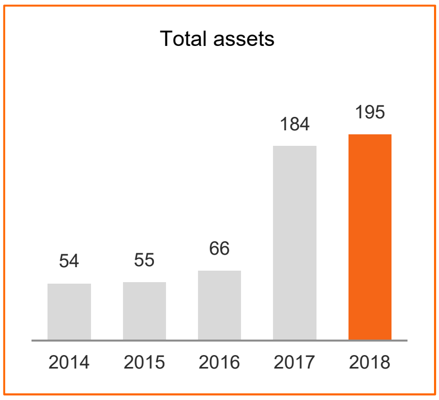
Financial KPI’s

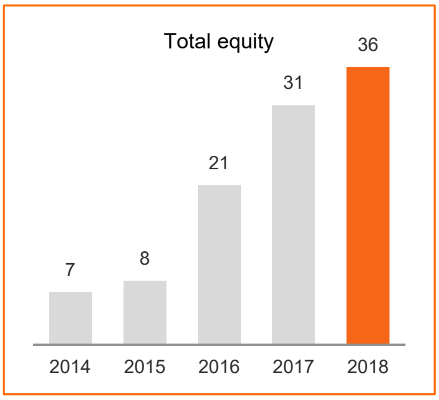
Profitability



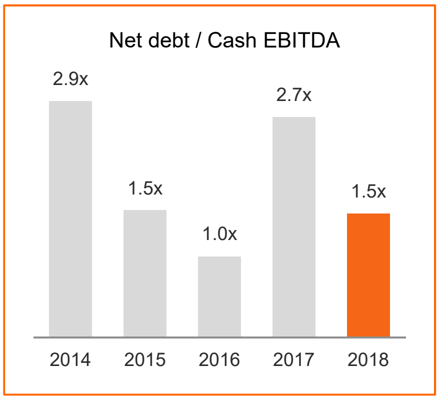


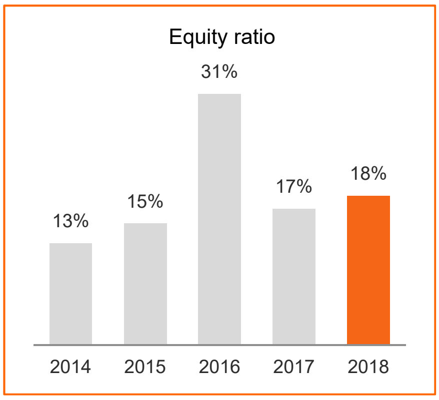
Balance sheet



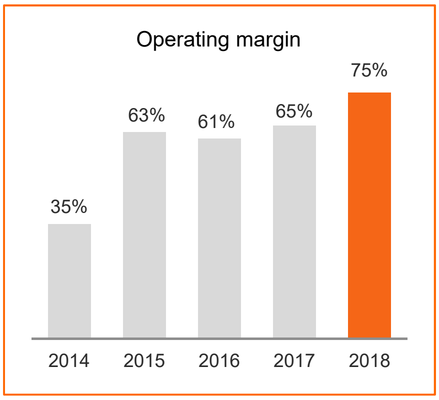


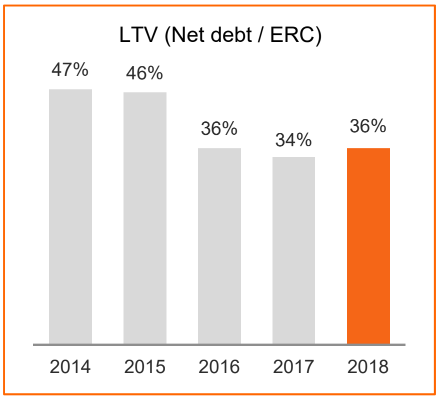
Leverage





Efficiency





“A key focus during the year has been to intensify the strategic shift from being an investor in unsecured consumer loans to becoming a specialized investor in secured corporate and consumer portfolios.”

Henrik Wennerholm,
CEO of DDM

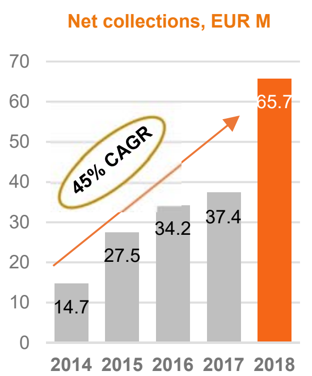
All figures are in EUR million, unless stated otherwise.
* Net profit includes EUR ~ 1.0m of non-recurring items relating to deferred taxes and interests in associates in Q3 2018 and EUR ~ 3.1m of non-recurring items due to the bond refinancing in Q1 2017

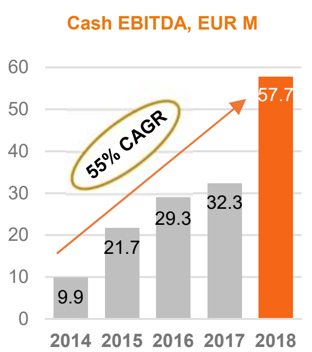
CEO'S REPORT

Record collections and cash EBITDA

Henrik Wennerholm,
CEO of DDM

"We have taken several major strategic and operational steps to further improve and strengthen our position in the market"





2018 has been an intense and exciting year for DDM and me personally. Since I had the privilege to take on the CEO-role in July we have achieved record collections and cash EBITDA for successive quarters and the full year of 2018. We have taken several major strategic and operational steps to further improve and strengthen our position in the market, most importantly being DDM's strategic shift towards becoming a specialized investor in secured corporate portfolios.

In combination with the reduced funding costs and expecting to become fully invested in 2019 following recent acquisitions, including a portfolio containing secured corporate receivables in Croatia, we have established a platform for continued significant growth.

Net collections reached an all-time high level with collections of EUR 65.7M in 2018. This increase is primarily driven by collections in the Balkans, Greece and the Czech Republic from portfolios acquired in H2 2017 and Q1 2018. This has resulted in record cash EBITDA of EUR 57.7M in 2018.

Strategic shift towards corporate secured portfolios

During 2018 we have strategically shifted towards becoming an investor in primarily corporate secured portfolios, a shift which has intensified following recent acquisitions. The proportion of secured portfolios has increased from 42 percent of ERC in June 2017 to 61 percent of ERC in December 2018. This shift will result in increased variability in our collections due to the timing of larger settlements from corporate portfolios. However, we are confident that this shift will benefit all of DDM's stakeholders, through enabling higher operating profit.

Investing activities

In 2018 we invested about EUR 36M in a significant portfolio containing secured corporate receivables in the Balkans. About 90% of the portfolio value is located in Slovenia and Croatia, and this transaction also includes receivables in Bosnia & Herzegovina and Montenegro, among others. We closed two smaller investments in the Czech Republic and the Balkans totaling approximately EUR 6M and bought-out a co-investor for approximately EUR 1M in a portfolio in Hungary bringing total investments for the year to approximately EUR 43M.

Financing activities

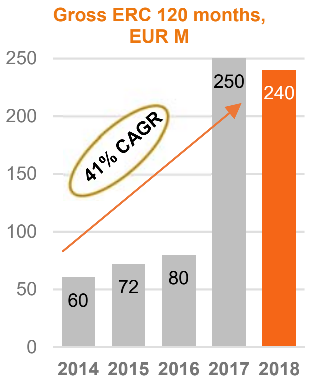
The Company successfully reached an agreement in March 2019 for a super senior revolving credit facility of EUR 27M with an international bank, priced at three month Euribor plus a margin of 3.5%. The revolving credit facility is available to finance acquisitions and for general corporate purposes for a period of up to two years and is permitted under the senior secured bond frameworks.

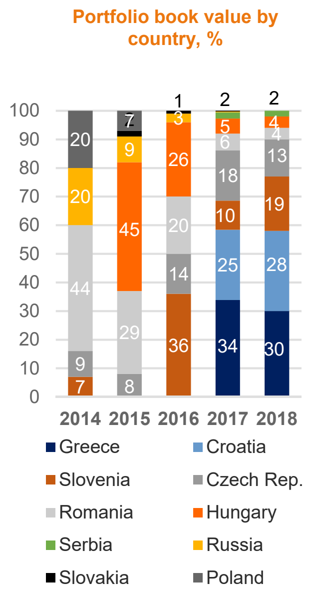
In November DDM Debt's parent company, DDM Finance AB refinanced the EUR 10M senior secured bonds maturing on November 6, 2018 by way of issuing EUR 12M senior secured bonds. The bonds carry an interest rate of 7% per annum for the first six months and can be prolonged by the Company at 8% per annum for another six months. Funding of the business remains a focus area and we will continue to work on this going forward to further improve flexibility, decrease the cost of capital and support our rapid growth.

Earnings 2018

For the full year 2018, net collections reached an all-time high level of EUR 65.7M compared to EUR 37.4M in 2017. This increase is primarily driven by collections in the Balkans, Greece and the Czech Republic from portfolios acquired in H2 2017 and Q1 2018. Following this positive trend, cash EBITDA increased significantly to EUR 57.7M in 2018, compared to EUR 32.3M for last year. Cash EBITDA is an important measure for the DDM Debt Group as this measures the cash available for servicing debt and guides the potential for growth based on current funding.

CEO'S REPORT





Revenue from management fees were EUR 1.2M for the full year 2018, EUR 0.7M lower than 2017 due to significant collections from Hungary received in the prior year and the buy-out of a co-investor in the fourth quarter of 2018. Operating expenses were EUR 9.2M for the full year 2018, EUR 2.2M higher than in 2017, mainly as a result of accelerated growth, management changes and strengthening the team.

Impairments and revaluations totalled EUR 2.6M for 2018 primarily relating to portfolios in the Balkans and due to timing of larger settlements from corporate portfolios expected to be received in 2019.

The net result for the year was a profit of EUR 4.8M for 2018, compared to EUR 0.7M for 2017. The net result for 2018 included EUR 2.0M other operating income due to the gain following the buy-out of a co-investor in Hungary and an increase in operating profit margin from 65% to 75%.

Our strong operational performance resulted in cash flow from operating activities before working capital changes of EUR 43.7M for the full year 2018 compared to EUR 21.6M for 2017. At 31 December 2018 we had a significant cash balance of EUR 59.9M, with a very strong pipeline for future investments in 2019.

Significant events after the end of the year

DDM continued to deliver on its growth strategy as an investor in secured portfolios, expecting to become fully invested following acquisitions including an agreement in January 2019 to acquire a significant distressed asset portfolio containing secured corporate receivables in Croatia. The acquisition is made through a Joint Venture structure together with B2Holding where each party holds 50%. Once completed, the acquisition will strengthen the overall earnings capacity of DDM and is expected to increase ERC by about EUR 100M or 42% to EUR 340M, from EUR 240M at the end of December 2018. The majority of the collections are expected to be received in the first three years and thereby accelerate the overall collections profile. The transaction is subject to regulatory approval and is expected to close in the second quarter of 2019.

We have also launched a partnership with 720 Restructuring & Advisory that will provide portfolio management services to jointly manage and oversee the debt collection process for portfolios in the Balkans. This will complement the existing network of outsourced debt collection agencies and enable DDM to be closer to the market ensuring increased control and management of larger, more complex work outs of corporate secured receivables.

DDM Holding AG is in a phase in which exploring identified opportunities for growth is prioritized. Consequently, the Board of Directors proposes that no dividend be paid for the financial year 2018.

Market outlook

The sale of non-performing assets continues to be a key focus area of active portfolio management by banking industry players in Central and Eastern Europe and the supply of new corporate NPL portfolios continues to grow as European banks consolidate and deleverage their balance sheets. The most active markets for DDM are currently the Balkans and Greece. We expect economic expansion, improving labour market conditions and increased lending activity in Greece following years of austerity to present further investment opportunities. Real estate in our region has also benefited from positive price development supporting our business and further transactions.

DDM's business model is flexible and opportunistic and we believe that there will continue to be good business opportunities for us. However, DDM's rate of growth and financial results will continue to vary from quarter to quarter, impacted by the timing of significant investments and larger settlements from corporate portfolios.

We aim to deliver sizeable and profitable growth in 2019 as we continue to focus on our markets in Central, Eastern and Southeast Europe where we have strong market knowledge and relationships.

BUSINESS MODEL

Capabilities to manage assets

DDM is a specialist multinational investor and manager in non-performing loans and special situations with a focus on Southern, Central and Eastern Europe. We work in close and longstanding relations with banks and financial institutions and provide solutions to recover outstanding distressed assets.

Revenues in the industry stem from the margin created by acquiring loan portfolios at a discount and then collecting the outstanding debt. There are two main categories of distressed assets. Corporate is made up of distressed obligations held by one company against another. Some of the major international investment banks are active as acquirers of this type of portfolios.

The second category is distressed consumer debt, i.e. debt held against consumers that for some reason is not fully and/or promptly served. The traditional way for a company that holds such debt has been to give an assignment to a collection company. The collection company would then, acting as an agent, attempt to collect as much as possible and for this service charge a commission based on the collected amount.

DDM acquires distressed assets mainly consisting of non-performing loans with an investment value of EUR 5–50M. Sellers are primarily financial institutions, typically international banks with presence in several countries in Southern, Central and Eastern Europe. We have 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 DDM has primarily acquired portfolios of unsecured assets, and primarily consumer receivables. However since 2015 significant portfolio acquisitions have been made containing secured assets in addition to corporate receivables.

DDM key market segments, performing and non-performing assets

DDM's activities (in orange) are focusing on specific segments of the overall market.

Our business model is supporting sellers and debtors

DDM's business model is based on our extensive experience and expertise from the NPL industry, proprietary data in combination with independent debt collection agencies providing the services according to DDM's specifications.

In general, the market players can be divided into two strategic groups by the business models prevalent, namely: debt collection through in-house or external collection agencies. DDM is different from most of its peers due to our business model, which is based on partially outsourcing debt collection to external collection agencies and our in-house technology platform.

Incentives for sellers to use DDM

Banks in Southern, Central and Eastern Europe are generally subject to the same driving forces as Western European banks when it comes to selling their distressed assets. These include their need to focus on their core operations and to improve their capital adequacy ratios and cash positions.

Incentive 1

In many cases, removing distressed assets from their balance sheets helps banks meet regulatory requirements.

We acquire portfolios of distressed assets outright, removing them from our clients' balance sheets, and providing immediate liquidity and freeing up reserves. Generally, selling to us enables clients to recover capital much faster than through a traditional debt collection company.

Incentive 2

Selling distressed assets allows banks to focus on their core activities as distressed asset management can be difficult and divert management focus and other scarce resources.

Incentive 3

By selling distressed assets to a respected debt purchaser such as DDM, banks reduce their reputational risk. Banks and financial institutions seeking to sell portfolios of distressed assets often work directly with us.

This is attributable to our track-record, experience in closing transactions and our method of both managing the performance of our portfolios, and of carefully selecting our collection partners.

BUSINESS MODEL

The acquiring and managing of debt and the subsequent collection on debts, together the distressed assets industry, is an integral part of the finance and credit systems. As an experienced investor and manager DDM understands the sellers' demands and expectations. In combination with a strict ethical approach throughout the process, DDM has gained a strong reputation within this growing industry and enjoys strong business relationships with sellers, mainly major banks and other financial institutions in the countries in which we are operating.

DDM has created a proprietary software system that drives efficiency and productivity, as well as providing significant intellectual property to further provide time and cost-efficient processes. This enables DDM to deliver effective and reliable solutions to assure the sellers' their reputation and successfully manage and support the debt recovery process.

An open dialogue with the debtor is key to reaching an amicable settlement. DDM's goal is to reach mutual understanding of the situation in order to offer an affordable instalment plan for the individual. There are different reasons for each debtor to become delinquent, however the majority want to overcome their difficulties. With a professional approach, we are able to resolve their financial condition and the former debtor is again a potential consumer.

Business drivers

Key drivers and trends

The industry is influenced by the general state of the economy in Europe, and regulatory changes of bank capital requirements. In particular, the major trends observed are:

- IFRS 9 new accounting standard
- Asset quality reviews and equity need for NPL's
- Markets in Financial Instruments Directive (MiFID) framework
- Introduction of Basel III accord and future Basel IV standards developments

The first trend observed is that banks continue to strengthen their balance sheets, by deleveraging and cutting costs, in order to improve their capital adequacy ratios and cash positions. The European wide bank stress test results released in 2016 revealed that certain European banks still need to work on strengthening their capital buffers. The increased amount of transactions in the NPL market depicts a trend that the market is continuing to develop. In November 2018, the European Banking Authority published the results of the 2018 EU-wide stress test. This is expected to further increase the number of transactions in the NPL market in particular across Central, Eastern and Southern Europe where the NPL ratio remains higher than the European average.

Furthermore, there are several benefits that banks can capture through loan portfolio sales, which promote further adoption: by enabling them to focus on their core business, reducing reputational risks and ensuring correct treatment of customers through professional debt collection.

Competition overview

Although the scenario varies somewhat between the different countries, the Southern, Central and Eastern European NPL markets offer substantial opportunities for growth as they remain less developed than their Western counterparts, while lending operations increasingly resemble those in more developed markets.

DDM operates in a different way than most other competitors on the market. The biggest difference is our proprietary IT system Fusion, a critical tool in both originating and managing asset portfolios and the fact that we work with a large network of trusted debt collection agencies that collect the assets on behalf of DDM instead of having our own collections operations. That, together with a highly skilled experienced organization and a strong relationship with selling banks that view DDM as a trusted and reputable partner makes us unique. Other competitors on the markets include local investors, such as Kruk Group in Poland and Romania, international investors in NPLs, including Intrum, B2Holding and EOS Group; as well as larger international financial institutions, such as Deutsche Bank and AnaCap Financial Partners, who have been known to invest in portfolios in some of the markets where we operate on a more opportunistic basis.

BUSINESS MODEL

The value chain

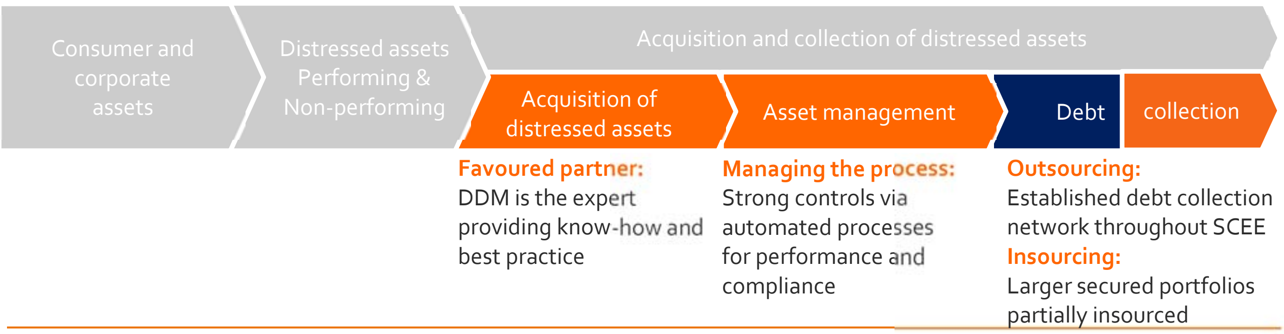
DDM focuses on the most profitable part of the distressed asset value chain – the acquisition and recovery management of assets mainly sold by financial institutions in Southern, Central and Eastern Europe.

DDM's view that Southern, Central and Eastern Europe is a more immature market, where flexibility, speed in decision-making, and reputation while maintaining standardized processes are key success factors. As a result, Southern, Central and Eastern Europe presents an interesting potential, as the adoption of selling loan portfolios is a relatively new and increasing feature in comparison to mature Western European markets.

Below is an illustration of the value chain with DDM key activities marked in orange. To be successful in the acquisition process, DDM has developed state-of-the-art processes for analysis, pricing and management of the acquired portfolios based on the team's deep industry experience.

To manage the acquired portfolios, DDM's strategy is to partner up with a multitude of outsourced collection agencies in each local market, in order to optimize collections from each portfolio. These processes are built into DDM's proprietary IT system FUSION, either as business rules or as an automated process. As a result of DDM outsourcing the collection process, the Company can select the best-suited collection agency for a specific group of receivables, whilst partially in-sourcing the collection for larger corporate secured receivables.

Overview of the value chain – DDM's activities are marked in orange.



Acquisition of distressed assets

Historically, banks have sold loan portfolios in larger chunks, which require significant resources available for investment and capacity to hold the portfolio for the duration between investment and collection. Although banks have started to split these in smaller portions, the business experiences idiosyncratic risks, which promotes the need for enterprises to invest heavily in different prospects for diversification purposes.

As a reference on the cost and size of portfolios, DDM typically targets portfolios with an investment value of EUR 5-50M. In addition to having access to capital, enterprises engaged in loan portfolio transactions need to have the knowledge and resources to evaluate potential prospects to be successful. This holds especially true during the turmoil associated with recessions, where increase in NPLs drive portfolio prices down, while at the same time increasing the risks of not being able to collect the outstanding debt. To address this issue, advanced integrated systems are used to evaluate loan portfolio attractiveness.

Asset management

DDM manages this through its proprietary IT system called FUSION. One of the most critical factors when acquiring portfolios is that enterprises must have access to an efficient collection process, which includes correct and ethical treatment of debtors, since selling banks and financial institutions are concerned about maintaining their reputation and relationship with clients, as well as debtors. Consequently, this implies that even though an enterprise has the required cash and enough knowledge to enter the industry, it may prove impossible to actually acquire and initiate a relationship with selling financial institutions if unable to ensure that it can handle debtors appropriately.

Our processes

When DDM is presented with an opportunity to acquire a portfolio, an analysis of the available data is performed and an indicative price is calculated. Typical data requested includes:

- Outstanding principal, interest and fees amount per debtor and case, age of debt and monthly payment history per case, date of birth and other related debtor information, co-debtors and/or guarantor information
- Vendors underwriting standards; historical collection approach and current collection stage (pre-legal, legal, etc.), number of ongoing instalment programs
- Detailed information about collaterals or other securities (if applicable), types, age, location and related values

With the above input data, an analysis is performed with emphasis on:

- Checking all of the data, searching for and reconciling inconsistencies
- Considering the key factors affecting success rates in collection, including age and scale of the assets, collateral, bailiff procedures as well as availability and completeness of underlying documentation
- Analyzing the reported recovery rates, looking for trends, inconsistencies and potential to improve
- Assessing underlying collaterals and projecting estimated recoveries
- Considering what collection strategy has been applied, and for how long
- Taking existing payment plans into account and how they have been serviced

Based on this analysis, we evaluate the portfolio and produce a forecast for future collections on case level. Key factors include:

- Conducting scenario analysis (i.e. best case, worst case) based on underlying asset valuation, collection history as well as internal and external benchmarks
- Enhancing the current collection strategy by applying the best tool and selecting the best agent for every case
- Looking for seasonality, i.e. a predictable change in a time series that recurs or repeats over a one-year period, and applying these in the forecast
- Capturing recurring patterns that could affect the performance of the portfolio (holidays, additional monthly salary/bonuses, tax refunds)

BUSINESS MODEL

Asset acquisition process

In essence, the sales process for a distressed asset portfolio can be conducted as an open tender, direct sales or forward-flow transaction.

Open tender

In an open tender, the Group bids on a particular portfolio which is openly offered to several potential acquirers.

Direct sales

In a direct sales process, DDM engages with the relevant seller bilaterally and negotiates tailored terms. Direct sales transactions are generally beneficial for DDM as price transparency and price pressure are generally low, and as they give DDM a greater influence over the final composition of the portfolio and thereby the possibility to tailor it to fit the prevailing investment appetite.

For some sellers of portfolios, the sales process is highly sensitive from a marketing perspective and therefore the seller sometimes prefers to perform sales on a bilateral basis rather than through an open tender. DDM has made a significant part of its past historical investments from such bilateral transactions, something that highlights its deep and extensive contact-network and deal-making capability in its core markets.

Forward-flow transactions

In forward-flow transactions, an agreement is made for purchases of distressed asset portfolios that fulfil certain criteria on an on-going, regular basis. Forward-flow transactions might be a part of building long-term business relationships, as well as reducing transaction costs. Historically DDM acquired some portfolios through forward-flow transactions, however there are no such transactions currently in place.

Portfolio management process

Operating in the distressed asset industry, DDM is aware of the importance of managing its collection-partner relations for various reasons, including but not limited to, protecting the seller's reputation and ensuring correct and ethical debtor treatment as well as data confidentiality.

Referral

As DDM outsources the collections process it can select a collection agency suitable for collection of a particular asset, whilst partially in-sourcing the collection for larger corporate secured receivables. Stemming from its geographic focus on Southern, Central and Eastern Europe and early presence in some of these markets, DDM has strong relationships with top collectors in its markets and knows their relative strengths. Examples of selection criteria of a debt collector include size, age, type and geography of the acquired asset portfolio.

Monitoring

After a portfolio has been placed with a collection agency, DDM monitors the collection performance, in order to optimize the conversion level within the required cost budget and time frame. A daily data file with actions taken is delivered to DDM, which could trigger an immediate action from DDM's side if there is a deviation from the plan.

An additional level of control includes scheduled on-site visits and an impromptu visit to ensure the highest level of quality of DDM's partner agencies. These visits normally include various evaluation aspects, carefully selected and refined over the course of the past eleven years.

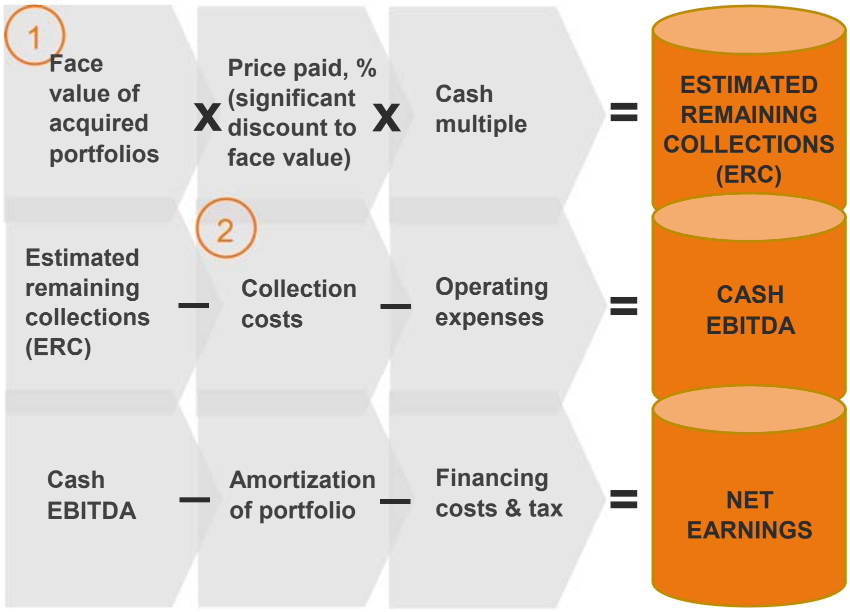
As an ordinary practice, DDM collects various data and information from the agencies. It is a complex and multifaceted process, including daily debtor payments, agency commission and fees, actions taken and much more.

BUSINESS MODEL

Illustrative economics

The timing of cash flows and the rate of collections varies due to a number of factors including, but not limited to, year of origination, average age, average amount per case, type of underlying receivable and previous treatment.

DDM's business model can be explained in a simplified way according to the below:



1. The starting point is the face (nominal) value of the acquired asset portfolios times the price paid as a percentage of the nominal value, which typically is at a significant discount to the face value. Multiplying the purchase price with the assumed gross cash multiple results in the anticipated future cash flows which equals the gross Estimated Remaining Collections ("ERC"). The gross ERC is the sum of future, undiscounted projected cash collections before commission & fees.

2. If deducting the collection costs (commission & fees) and operating expenses from the gross ERC it results in the Cash EBITDA (net collections and revenue from management fees less operating expenses). Cash EBITDA could also be described as the remaining amount the company has available to service its debt.

If in addition, deducting amortization on the portfolios, financing costs and tax from Cash EBITDA it results in the Net earnings.

Market overview

In 2018 Southern, Central and Eastern Europe continued to be a key focus area of active portfolio management by banking industry players, resulting in a strong supply of new corporate NPL portfolios as European banks consolidate and deleverage their balance sheets. Supported by positive price development in real estate across the CEE regions, has allowed the NPL market to outperform the level of sales volumes reached in 2017.

"We expect economic expansion, improving labour market conditions and increased lending activity in Greece following years of austerity to present further investment opportunities."

Sources:
Deloitte Financial Advisory Services, "Full steam ahead, Deleveraging report 2018 Q3"

MARKET

Distressed assets in Southern, Central and Eastern Europe

As debt sales markets of United Kingdom and Ireland mature coupled with the uncertainty of Brexit, market activity for non-performing loans in Southern, Central and Eastern Europe has intensified. Main catalysts for the significant increase in non-performing loan sales in the Southern, Central and Eastern Europe region is the improving macroeconomic conditions, as well as the upsurge of real estate markets. This has resulted in increased lending activity notably in the Balkans and Greece. We expect further investment opportunities in Greece given the recent end of its third successive bailout program ending years of austerity.

European loan sales

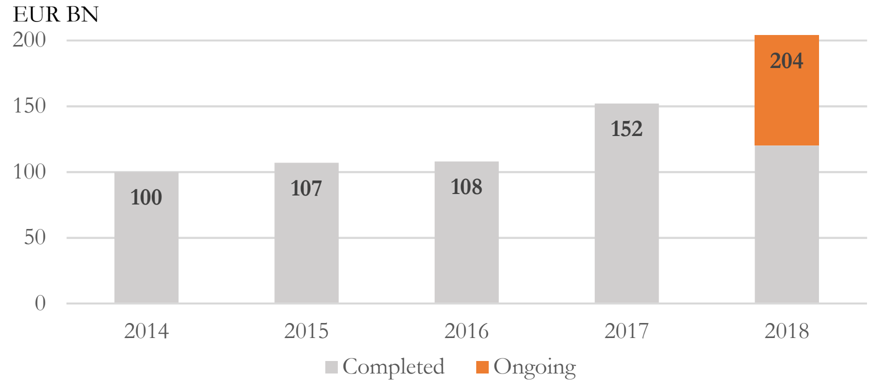
The sale of non-performing assets is continuing among the banking industry players in the CEE region and supply of new corporate NPL portfolios in 2018 has been supported by number of large one-off transactions. Regulators and local authorities in many geographies developed measures to urge financial institutions to dispose distressed assets. In 2017, European loan sales totaled EUR 152 billion, of which 14% of deals completed took place across Greece and CEE.

European loan sales in 2018 is set to surpass 2017, with approximately EUR 200 billion of transactions either completed or ongoing in Europe as a whole, and 14% of deals completed expected in Greece and CEE. This development further supports the DDM view that the region remains poised for solid growth going forward, though it is often overlooked by investors due to its perception of being immature. The result is that region is dominated by investors who have accumulated specialized knowledge of operating in the region, and DDM is among them.

Greece

The major development during 2018 in the region was notably in Greece, following the end of its third successive bailout program ending years of austerity and its vast untapped market of NPLs. In 2018 all four major Greek banks closed sizable sales and started disposing portfolios of loans secured with real estate, with five closed transactions totaling EUR 11 billion. Expectation for 2019 is that deal volumes are expected to increase further as Greek banks face tougher regulatory pressure from the Bank of Greece and European Central Bank ("ECB") to accelerate the sale of non-performing loans from their balance sheets. DDM, together with strategic partners, was a primary early entrant in the market having completed on its acquisition of EUR 1.3 billion of NPLs from Attica Bank and we expect further investment opportunities in Greece.

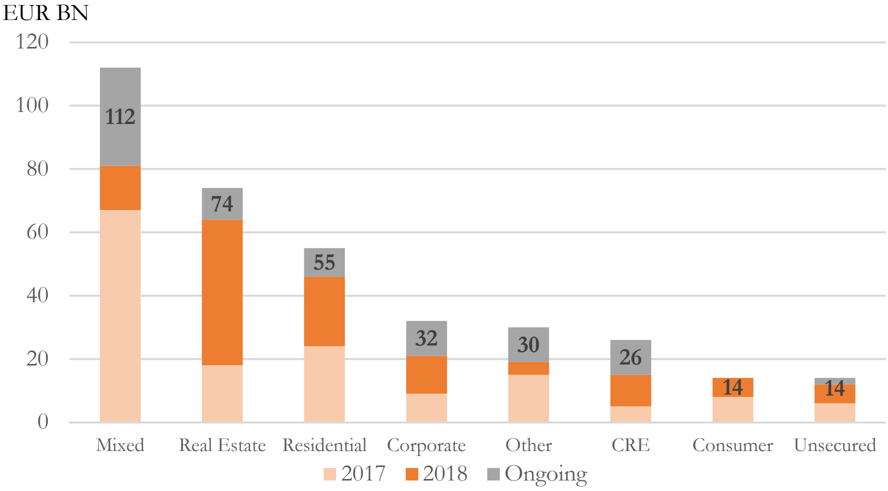
European loan sales by year (EUR billion)



The volumes of NPL disposals over recent years has been steadily declining the stock of NPLs held by banks across Europe. The ECB estimates that the average NPL ratio stands currently above 3%, reduced from 5% in 2015, however this still equates to approximately EUR 750 billion of non-performing loans and advances, with approximately EUR 100 billion in Greece alone. European banks have been divesting across all sectors including corporate secured, retail mortgages, consumer credits, and real estate owned assets acquired through the working out of non-performing loans. Visibility on further transactions from such sellers is robust across the

MARKET

European asset sales by asset class in 2017 and 2018 (EUR billion)



Sources:
Deloitte Financial Advisory Services, "Full steam ahead, Deleveraging report 2018 Q3"

Note: The above graph shows the loan transactions by assets class that have occurred across Europe.

Key trends and drivers

Growing investor demand, regulation and the general state of the economy in Europe is driving change in the loan portfolio markets in Southern, Central and Eastern Europe. In addition, the following major industry trends are observed:

Compression of yields and tighter pricing

Investor interest in the region has grown significantly such that in certain countries pricing is beginning to approach levels seen in more mature markets. Factors such as more streamlined and transparent sale processes, strong real estate and fixed asset markets across the region, and the successful experiences of key investors have given comfort to a wider group of investors to pursue the generally higher yields in Southern, Central and Eastern Europe.

Implementation of IFRS 9

A major regulatory factor that has dramatically affected NPL sale volumes is the adoption of the IFRS 9 accounting standard, which entered into force in 2018. This standard has caused banks to modify provisioning policies which has resulted in large pools of NPLs on the balance sheets of Southern, Central and Eastern European banks to provisioning levels where the sale of such NPL's does not create major impediments in their capital positions. This was experienced in Romania where strict quarterly asset reviews resulted in proper provisioning which led to a large level of NPL sales in that country. IFRS 9 prompted a "provisioning effect" on the sales volumes of NPLs in other countries, such as Bulgaria and Hungary, where lack of proper provisioning has held up debt sale volumes in recent years.

European Regulation

In March 2018, the European Commission announced measures to accelerate the reduction of non-performing loans in the banking sector. The proposals that will apply further pressure on European banks to divest of NPL portfolios included four key elements namely; ensuring sufficient loss coverage for NPLs, enabling accelerated out-of-court enforcement of loans secured by collateral, further developing secondary markets for NPLs and a technical blueprint for how to set up a national Asset Management Companies ("AMCs").

Local judiciary systems

The judiciary systems in many jurisdictions lack the skills required to process actions against non-performing borrowers. Furthermore, strict licensing requirements needed for non-banking institutions to acquire and manage NPLs create barriers to entry for new investors. However, changes in such areas are improving steadily across the region, with governments and regulators coming to terms with the fact that such impediments make the cleansing of local financial systems difficult, which impedes economic growth. Advances in Greece, Hungary, Romania and Slovenia, as examples, have led to strong growth in NPL sales. DDM believes this trend will continue which should vastly improve the market for NPLs across Southern, Central and Eastern Europe.

CORPORATE AND SOCIAL RESPONSIBILITY

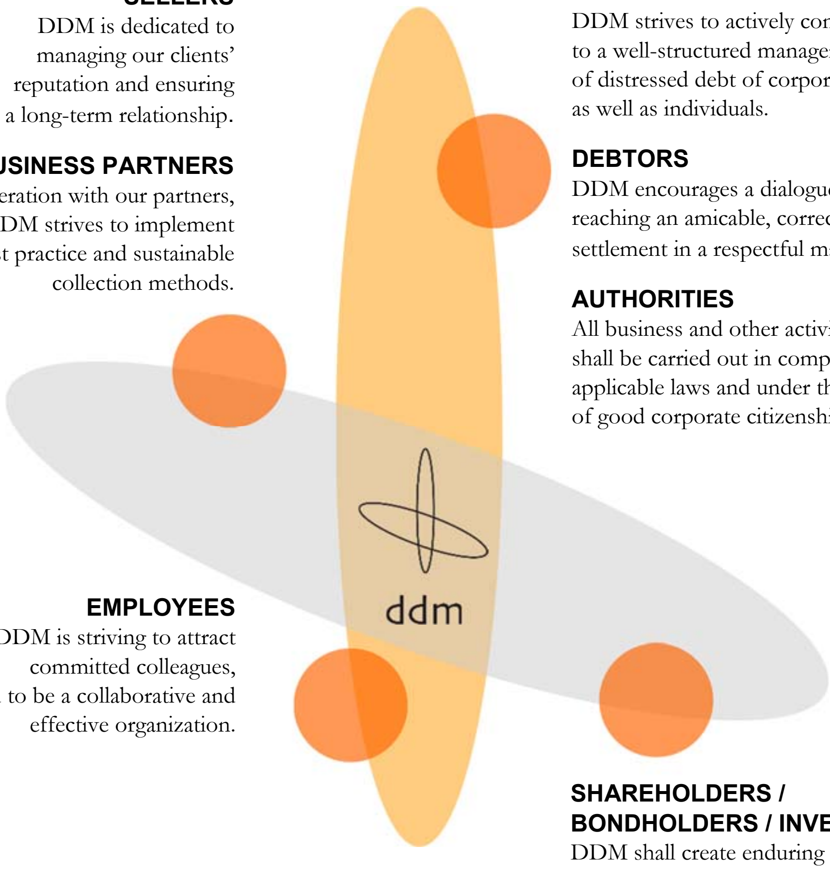
DDM's stakeholders

Sustainable economy

Our objective is to provide a pivotal service in a sound and sustainable economy. Our role and position in the value chain enables us to add value for credit providers on the one hand, while alleviating debtors from imminent financial hardship and helping them settle their debts under terms they can afford.

DDM's overarching goal for corporate responsibility is to build sustainable long-term values together with our key stakeholders.

DDM's primary stakeholders are sellers of distressed assets, employees, debtors, shareholders, investors, business partners, authorities and the local community. These groups are important for our long-term success.



SELLERS
DDM is dedicated to managing our clients' reputation and ensuring a long-term relationship.

BUSINESS PARTNERS
In co-operation with our partners, DDM strives to implement best practice and sustainable collection methods.

EMPLOYEES
DDM is striving to attract committed colleagues, and to be a collaborative and effective organization.

SOCIETY
DDM strives to actively contribute to a well-structured management of distressed debt of corporations as well as individuals.

DEBTORS
DDM encourages a dialogue aimed at reaching an amicable, correct and quick settlement in a respectful manner.

AUTHORITIES
All business and other activities of DDM shall be carried out in compliance with applicable laws and under the principles of good corporate citizenship.

SHAREHOLDERS / BONDHOLDERS / INVESTORS
DDM shall create enduring value for its investors by opportunistic deal sourcing and optimal management of distressed assets.

Our approach to Corporate Responsibility

We seek to be part of a solution in the credit market whereby we initiate opportunities for banks and financial institutions to divest their portfolios of distressed assets to better meet new and future regulations regarding capital adequacy. This, in turn, bolsters the stability of the banking sector by helping avoid artificially inflated balance sheets. By doing this, we not only help banks "cut their losses" vis-à-vis distressed assets, we also alleviate them of the burden of managing and collecting on those assets.

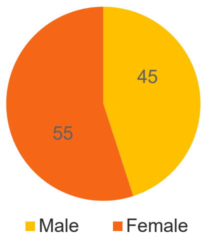
We select partner collection agencies carefully, making sure they apply professional, respectful and ethical methods. We work closely with them to determine which agencies are appropriate for collection on certain assets and what measures are appropriate.

Respectful and ethical treatment of debtors is central to our efforts and the banks who sell their portfolios to us pay considerable attention to correct treatment of their customers. Over the years, we have demonstrated an ability to actively control the measures and processes implemented by the collection agencies.

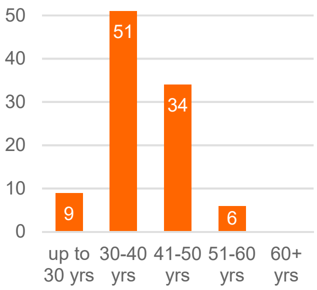
CORPORATE AND SOCIAL RESPONSIBILITY

Investing in Corporate and Social Responsibility

Employees by gender, %



Employees by age;%



Human resources

DDM Group's head office is located in Baar, Switzerland. The composition of the DDM team reflects the Group's European outreach.

At the end of 2018, DDM employed 33 people (2017: 25). All of our staff are permanently employed. The majority of our employees have a university-level degree or higher. The average age of DDM employees is 38 years (2017: 37).

DDM's policy is to hire the best possible talent and at the same time embracing diversity in all levels in the Group, including the Executive Management Committee, as well as the Board of Directors.

Code of Conduct

DDM Holding AG, its business units and subsidiaries are committed to carrying out business in a sustainable way. According to DDM's Code of Conduct, the DDM Group shall conduct its business in compliance with applicable laws, and under the principles of good corporate citizenship in each country where such activities take place.

DDM offers a platform for economic growth by allowing banks and other financial institutions the opportunity to manage their credit exposure. DDM accepts its responsibility in society by helping businesses and consumers to restructure and optimize their lending and borrowing. The Company strives to maintain the highest legal and ethical standards in all its business practices.

The Environment

Due to the nature of business activities, DDM's most significant impact on the environment is through business travel and the production of material. The Code of conduct is in place to increase employee awareness of environmental issues and complies with relevant regulatory requirements.

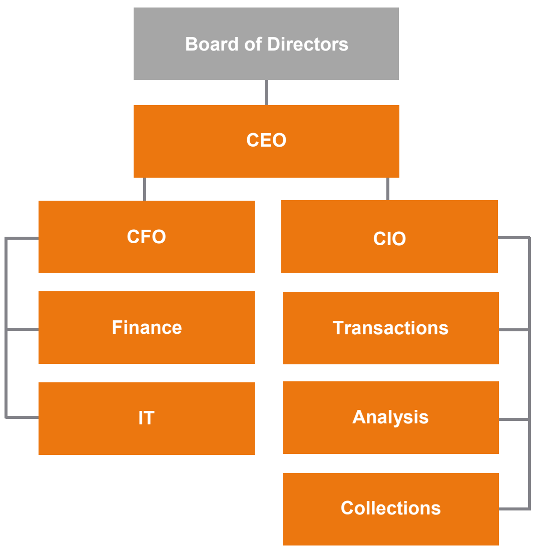
Anti-corruption

No DDM company or any of its employees may, directly or indirectly, promise, offer, pay, solicit, or accept bribes or kickbacks of any kind, including money, benefits, services or anything of value. Such payments and favors may be considered bribery, which violates local legislation and internationally recognized principles for combating corruption and bribery.

Each employee is expected to act responsibly and with integrity and honesty, and to comply with the Company's Code of Conduct and its underlying policies and instructions.

GROUP FUNCTIONS

DDM Group functions, which support both the Executive Management Committee and operations, strategically and in day-to-day operations, are divided into the following teams; Transactions, Analysis, Collections, Finance and IT. The teams work independently with defined goals and coordinate their work in dialogue with each other.



BOARD OF DIRECTORS

TORGNY HELLSTRÖM • Board member since 2014 • Chairman of the Board of Directors since 2018 • Chairman of the remuneration committee • Member of the audit committee • Member of the nomination committee • Member of the investment committee
Born: 1958 • **Nationality:** Swedish
Education: LL.M., Stockholm University. IBM Executive Education with Thunderbird (University of Phoenix). Swedish Army War Academy.
Other assignments: Chairman of the board of directors of Starbreeze AB, chairman of the board of directors of Precise Biometrics AB, board member of Ruddex International AB (wholly owned by Torgny Hellström)
Previous assignments (last five years): Chairman of the board of directors of MagComp AB, board member of True Heading AB (publ) and Seapilot AB
Dependence: Independent in relation to the Company and its principal owners
Shareholding*: 0 shares

FREDRIK WAKER • Board member since 2013 • Vice-Chairman of the Board of Directors since 2018 • Chairman of the audit committee
Born: 1966 • **Nationality:** Swedish
Education: M.Sc. in Business and Economics, Stockholm University
Other assignments: Owner, deputy CEO and chairman of the board of directors of Wakers Consulting AB, and CEO and board member of Wakers Affärsrådgivning AB. Chairman of Wakers Holding AB, and board member of Srf konsulterna AB, Rekaw Konsult AB, Frewako Waker Löttiger Aktiebolag, Fredrik Waker AB, P2 Energi AB, P2 Projektpartner AB and deputy board member of Nybroviken Development AB and limited partner of EXPLICIT företagsplanering Kommanditbolag
Previous assignments (last five years): CEO of Wakers Holding AB, and member of the boards of directors of Lekit AB, Nick Söderblom AB, Wakers Partnership AB and deputy board member of Maskin Lindell Aktiebolag
Dependence: Independent in relation to the Company and its principal owners
Shareholding*: 0 shares

ERIK FÄLLSTRÖM • Board member since 2017 • Chairman of the investment committee • Member of the remuneration committee
Born: 1961 • **Nationality:** Swedish
Education: Stockholm School of Economics
Other assignments: Chairman of Aldridge EDC Specialty Finance Ltd., and Executive Chairman of EDC Advisors Ltd. Member of the boards of directors of CST Global Ltd, European Digital Capital Ltd., Polaris International S.A. (previously Hoist Investments S.A), Sivers IMA AB and Tornado Investments S.A. (previously Hoist Group S.A.)
Previous assignments (last five years): Member of the boards of directors of Hoist Kredit AB, Olympus S.A., Calor S.A. and Calor GmbH
Dependence: Dependent in relation to the company and its principal owners as a major shareholder
Shareholding*: 6,764,783 shares**

* Shareholding (own and related party holdings)
** Shares held by Demeter Finance Sarl, part of the Aldridge EDC Specialty Finance (AEDC) Group, which was co-founded by Erik Fällström and Andreas Tuczka

EXECUTIVE MANAGEMENT COMMITTEE

HENRIK WENNERHOLM • Chief Executive Officer
Born: 1975 • **Nationality:** Swedish
Employed: 2018
Education: M.Sc. in International Economics and Business, Stockholm School of Economics
Other assignments: None
Previous assignments (last five years): Head of Business Development and member of the Group Executive Management Team of B2Holding ASA, founding partner and CEO of Sileo Kapital AB
Shareholding*: 112,178 shares

FREDRIK OLSSON • Chief Financial Officer
Born: 1980 • **Nationality:** Swedish
Employed: 2014
Education: B.Sc. in Accounting and Finance, University of Lund
Other assignments: None
Previous assignments (last five years): Finance Manager at LyondellBasell Industries NV
Shareholding*: 105,429 shares

ALESSANDRO PAPPALARDO • Chief Investment Officer • Member of the investment committee
Born: 1975 • **Nationality:** Italian
Employed: 2018
Education: Bocconi University, Milan
Other assignments: None
Previous assignments (last five years): Chief Investment Officer and member of Group Management Team of Intrum AB
Shareholding*: 0 shares

* Shareholding (own and related party holdings)

Share data

Market place: Nasdaq First North, Stockholm

Date of listing: 5 August 2014

Ticker symbol: DDM

ISIN code: CH0246292343

Currency: SEK

Key data per share

EUR	2018	2017
Earnings per share	0.36	0.05
Proposed dividend / Dividend	0.00	0.00
Number of shares at the end of year	13,560,447	13,560,447
Average number of shares during the year	13,560,447	12,408,738

Certified Adviser

DDM Holding AG's Certified Adviser on Nasdaq First North is:

Arctic Securities AS, Sweden branch
Biblioteksgatan 8
S-111 46 Stockholm
Sweden
Telephone: +46 8 446 860 00

THE DDM SHARE

DDM share and shareholders

Share capital

On 31 December 2018, DDM Holding AG's share capital amounted to CHF 13,560,447 distributed among 13,560,447 shares with a nominal value per share of CHF 1. Each share entitles the holder to one vote and an equal share in the Company's assets and earnings.

DEVELOPMENT OF THE SHARE CAPITAL IN DDM HOLDING AG

Date	Description	Change in the number of shares	Change in share capital	Total number of shares	Total share capital (CHF)	Nominal value (CHF)
16 August 2010	Incorporation	100,000	100,000	100,000	100,000	1
25 July 2012	Ordinary capital increase	132,000	132,000	232,000	232,000	1
10 October 2013	Ordinary capital increase	4,268,000	4,268,000	4,500,000	4,500,000	1
5 August 2014	Ordinary capital increase	2,600,000	2,600,000	7,100,000	7,100,000	1
2 June 2016	Ordinary capital increase	1,940,298	1,940,298	9,040,298	9,040,298	1
3 April 2017	Ordinary capital increase	4,520,149	4,520,149	13,560,447	13,560,447	1

Shareholders

At the end of 2018 DDM had approximately 392 shareholders. At 31 December 2018, Demeter Finance Sarl* was the Company's largest shareholder with a holding representing 49.89% of votes and share capital. The three members of the Executive Management Committee held a combined 217,607 shares in DDM at the end of 2018. DDM held 0 treasury shares at the end of 2018.

SHAREHOLDER STRUCTURE PER 31 DECEMBER 2018

Name	Total number of shares (thousands)	Percentage of capital and votes
Demeter Finance Sarl*	6,765	49.9
Danske Bank International S.A.	821	6.1
Praktikertjänst Pensionsstift	795	5.9
Hansson, Kent	584	4.3
J.P. Morgan Chase	545	4.0
Credit Suisse (Switzerland) Ltd	508	3.7
Göransson, Richard	448	3.3
Ålandsbanken AB	438	3.2
Handelsbanken Microcap Sverige	228	1.7
Förvaltnings AB Hummelbosholm	224	1.7
Total; largest owners	**11,356**	**83.8**
Summary others	2,204	16.2
Total	**13,560**	**100.0**

Holdings include direct and indirect holdings. *Sources: Euroclear, Computershare and DDM Holding*

* Part of the Aldridge EDC Specialty Finance (AEDC) Group

DISTRIBUTION OF SHARES PER 31 DECEMBER 2018

Number of shares	Number of shareholders	Percentage of total number of shares, %
1 – 1,000	251	0.5
1,001 – 5,000	65	1.2
5,001 – 10,000	23	1.2
10,001 – 50,000	31	4.7
50,001 – 100,000	6	3.1
100,001 – 500,000	10	15.4
500,001 –	6	73.9
Total	**392**	**100.0**

Sources: Euroclear and SIX

THE DDM SHARE

Financial calendar

Interim report January–March 2019:
2 May 2019

Annual General Meeting 2019:
28 May 2019

Interim report January–June 2019:
1 August 2019

Interim report January–September 2019:
7 November 2019

Q4 and full year report 2019:
20 February 2020

Annual report 2019:
27 March 2020

Stock option program

DDM currently has no outstanding stock option program in use, and no convertible debentures, warrants or other financial instruments which would imply a dilutive effect for the holders of shares in the Company. However, it should be noted that the Annual General Meeting 2015 approved the creation of conditional capital in the amount of up to CHF 500,000 in order to establish a program for employees and members of the Board of Directors. The Annual General Meeting 2018 also approved an increase of the conditional share capital by a maximum amount of CHF 1,000,000 by either the issuance of shares to employees or members of the Board of Directors of the Company or of group companies or the exercise of option rights which are granted to employees or members of the Board of Directors of the Company or of group companies.

Dividend policy and dividend for 2018

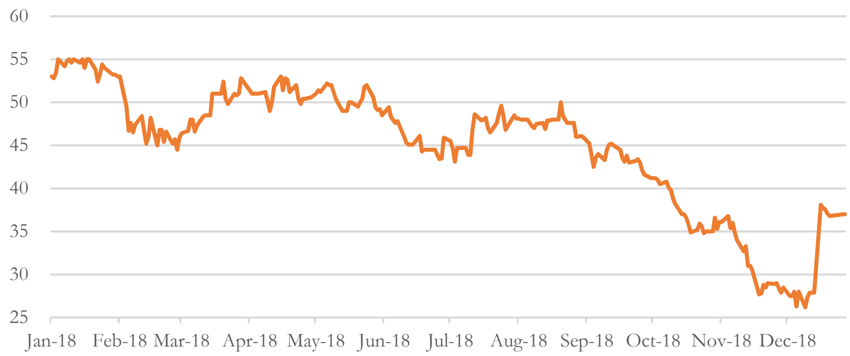
Decisions relating to dividend proposals take into account DDM's future revenues, financial position, capital requirements and the situation in general. The Company is in a phase in which exploiting identified opportunities for growth is prioritized. Consequently, shareholders should not expect to receive dividends in the next few years. The Board of Directors proposes that no dividend be paid for the 2018 financial year.

Share price and trading

DDM Holding AG's share has been listed on Nasdaq First North, Stockholm, since 5 August 2014. Opening price on the first day of trading was SEK 50.00. During the period from 1 January to 31 December 2018, 2,264,259 shares were traded, on average 9,395 shares per trading day.

The highest closing price during the period from 1 January to 31 December 2018 was SEK 55.00 on 10 January and the lowest was SEK 26.20 on 10 December. The share price on 31 December 2018 was SEK 37.00 (last price paid). During the period from 1 January to 31 December 2018, DDM's share price decreased by 26%.

SHARE PRICE DEVELOPMENT, 1 JANUARY 2018 – 31 DECEMBER 2018, SEK



>> *Source: Nasdaq First North*

Quiet periods

DDM's quiet period starts at least 20 days prior to publication of the year-end or interim report, and ends on the day of the report. During this period, the Company will not comment on its financials. Exceptions from this rule can be made in order to correct obvious errors or inaccuracies. Investor Relations will respond to questions related to press releases issued during this period.

General Framework

The aim of corporate governance is to ensure that DDM is managed as effectively as possible in the interest of its shareholders, but also in compliance with the rules required by legislators and the Nasdaq First North Rulebook.

This Corporate Governance section explains the principles of management and control at the highest level of the DDM Group.

The information contained in this report for the financial year 2018 is valid as at 31 December 2018, unless stated otherwise. The principles and rules on corporate governance in DDM Holding AG are laid down in the articles of association (the "Articles"), the Business Rules for the Board of Directors (the "Board Rules"), the regulations of the Board of Directors' committees and the internal corporate governance policies.

Corporate Governance

DDM Holding AG (or the "Company") is a Swiss limited liability company with its shares admitted to trading on a multilateral trading facility, the Nasdaq First North in Stockholm, Sweden. Thus, the corporate governance of DDM is subject to Swiss, Swedish and EU rules and regulations, including e.g. the EU Market Abuse Regulation, as further described below.

Implementation of the Ordinance Against Excessive Compensation at Listed Companies

The Swiss Federal Council (the executive branch of the Swiss federal government) has adopted rules against excessive remuneration in listed companies by implementing the Ordinance Against Excessive Compensation at Listed Companies (*D. Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften*) (the "VegüV"). The VegüV applies to corporations organized under Swiss law whose shares are listed on a stock exchange in or outside Switzerland. DDM implemented the VegüV in 2017. Please refer to the compensation report on pages 37 to 40.

The Swedish Code of Corporate Governance

The Swedish Code of Corporate Governance applies to all companies with shares listed on a regulated market in Sweden, such as the main market of Nasdaq Stockholm. The Swedish Code shall be fully applied from the time a company's shares are admitted to trading. Non-Swedish companies listed on a regulated market in Sweden may however opt to apply the applicable corporate governance code in the country where the company is domiciled. However, although being a Swiss company and not yet listed on the Nasdaq Stockholm main market, DDM aims to comply with applicable rules in the Swedish Code.

The EU Market Abuse Regulation

The EU's Market Abuse Regulation ("MAR") is applicable to DDM as from 3 July 2016. MAR is supplemented by a series of delegated regulations and implementing regulations issued by the EU Commission and by guidelines issued by the European Securities and Markets Authority (ESMA). MAR aims to enhance market integrity and investor protection and applies in respect of e.g. issuers and financial instruments admitted to trading on regulated markets, multilateral trading facilities and organized trading facilities.

MAR contains, among other things, rules regarding a prohibition on insider dealing, unlawful disclosure and market manipulation; rules prescribing the manner in which issuers are to handle and publicly disclose inside information; rules imposing an obligation on issuers to maintain an insider list (logbook); and rules regarding reporting obligations in respect of transactions performed by persons discharging managerial responsibilities at an issuer or persons closely associated with them.

The Board of Directors of the Company has adopted internal policies to facilitate and safeguard DDM's compliance with MAR and related rules and regulations.

Governance of the DDM Group

DDM Holding AG (CHE-115906312) is a company incorporated under Swiss law on 16 August 2010, with its legal seat in Baar, canton Zug, Switzerland. DDM has twenty-four subsidiaries as of 31 December 2018 (2017: twenty), all of which are wholly-owned except for CE Partner S.à.r.l. and CE Holding S.C.S. that are partially-owned. DDM Debt AB (publ) is the issuer of the senior secured bonds issued in January and December 2017.

The purpose of corporate governance is to ensure that the Company is managed as effectively as possible in the interests of the shareholders, but also that DDM Holding AG complies with the rules required by legislators and the stock exchange, among other things in the form of corporate governance.

In addition to compliance with rules and regulations, DDM Holding AG applies internal governance instruments, such as the Company Handbook, together with policies in a number of areas such as DDM's Code of Conduct with which all employees must be familiar and in accordance with which they must conduct themselves.

Articles of Association

According to the Articles, the purpose of DDM Holding AG is to acquire, hold, administrate, finance and sell participations in enterprises in Switzerland and abroad.

For further information see the Articles section on the Company's website >>.

Shareholders' Meetings

General

Shareholders' rights to resolve on company matters are exercised at the shareholders' meeting. An ordinary shareholders' meeting is to be held yearly within six months following the close of the business year. It is called by the Board of Directors or, if necessary, by the auditors.

Extraordinary shareholders' meetings may be called by the Board of Directors, the liquidators or the auditors as often as necessary to safeguard the interests of the Company. Shareholders' meetings are held at the domicile of the Company or at such other place as the Board of Directors shall determine.

The Board of Directors, the CEO and the Executive Management Committee, which assists the CEO, are responsible for the DDM Group's administration and operations.

The shareholders' meetings will be held in English and information and material will be available in English only. The report from the shareholders' meetings will be published on DDM's website.

Right to attend shareholders' meetings

All shareholders (i) who hold their DDM shares through Computershare Schweiz AG must be registered in the share register of DDM with voting rights or (ii) who hold their DDM shares through Euroclear Sweden AB must be registered in the register of shareholders kept by Euroclear Sweden AB and obtain an admission card from DDM in order to be entitled to attend the shareholders' meeting and vote according to the number of DDM shares they hold.

Shareholders may attend shareholders' meetings in person or through a proxy. Shareholders may register for shareholders' meetings in the ways described in the meeting convening letter.

Notice of shareholders' meetings and shareholder initiatives

Notice of a shareholders' meeting is given by means of a publication in the Swiss Commercial Gazette or by letter to the shareholders of record as well as through a press release. Between the day of the publication or the mailing of the notice and the day of the meeting there must be a time period of not less than 20 calendar days. The notice of the shareholders' meeting must indicate the agenda and the motions. The notice will also be published on DDM's website.

Stating the purpose of the meeting and the agenda to be submitted, one or more shareholders representing at least ten percent of the share capital may request the Board of Directors, in writing to call an extraordinary shareholders' meeting. In such case, the Board of Directors must call a shareholders' meeting in due course.

The Annual General Meeting 2018

At the end of 2018, DDM had approximately 392 shareholders (end of 2017: approximately 577) and Demeter Finance Sarl was the Company's largest shareholder with a holding representing 49.89% of votes and share capital. For further information on the DDM shareholder structure, see page 19 of the Annual Report and DDM's website >>.

The AGM resolved:

- To amend the conditional share capital, which may be used in connection with the implementation of share option plans
- To approve the 2017 annual report, the statutory financial statements and the consolidated financial statements
- To appropriate DDM's available earnings in accordance with the Board of Directors' proposal in the 2017 Annual Report
- To discharge the Board of Directors and the Executive Management Committee from liability
- To re-elect Torgny Hellström, Fredrik Waker, Erik Fällström and Mikael Nachemson as Members of the Board of Directors
- To elect Torgny Hellström as Chairman of the Board of Directors

- To elect Torgny Hellström and Erik Fällström as members of the remuneration committee
- To approve the compensation report 2017, on a consultative basis and as proposed by the board of directors
- To approve the compensation of the members of the Board of Directors for the period until the end of the 2019 annual general meeting, the variable compensation of the members of the executive management for the business year 2018 and the fixed compensation of the members of the executive management for the business year 2019
- To re-elect PricewaterhouseCoopers AG, Luzern, as the Company's statutory auditors for the business year 2018

The Extraordinary General Meeting held on 6 December 2018
The Meeting resolved:
- To remove Mikael Nachemson as a member of the Board of Directors

The 2019 Annual General Meeting will be held on 28 May in Zug, Switzerland.

The Board of Directors

The Board of Directors is appointed by DDM Holding AG's owners to bear ultimate responsibility for the Company's organization and the management of the Company's affairs in the best interests of both DDM Holding AG and the shareholders.

DDM's Board of Directors are elected for a term of office of one year (or, in case of an election at an Extraordinary General Meeting, for a term of office until the next Annual General Meeting), with the possibility of repeated re-election. The term of office of a member of the Board of Directors will, however, end irrevocably on the date of the Annual General Meeting following the 70th birthday of the particular member of the Board of Directors.

The Board of Directors constitutes itself, as set out in the Articles of Associations.

The composition of the Board of Directors is set out in section "Board of Directors" on page 17 in this Annual Report and the members of the Board were elected by the Shareholders' Meetings for a term of office expiring at the Annual General Meeting 2019.

Torgny Hellström is Chairman and Fredrik Waker is deputy Chairman. DDM's Chief Executive Officer and Chief Financial Officer also usually attend the meetings on behalf of the Executive Management Committee. Other members of the Group management and other executives may also attend and present reports on individual issues as required.

The Board of Directors is entrusted with the ultimate management of the Company, as well as with the supervision and control of the management.

The Board of Directors is the ultimate executive body of the Company and shall determine the principles of the business strategy and policies. The Board of Directors shall exercise its function as required by law, the Articles and the Board Rules.

The Board of Directors shall be authorized to pass resolutions on all matters that are not reserved to the general meeting of shareholders or to other executive bodies by applicable law, the Articles or the Board Rules.

By Swiss law, the Board of Directors has the following non-transferable and inalienable duties:

a) The ultimate management of the Company and the issuance of the necessary directive;
b) The establishment of the organization;
c) The structuring of the accounting system and of the financial controls as well as the financial planning insofar as this is necessary to manage the Company;
d) The appointment and removal of the persons entrusted with the management and representation of the Company;
e) The ultimate supervision of the persons entrusted with the management, in particular in relation to compliance with the law, the Articles, regulations, charters and directives;
f) Preparation of the business report consisting of the annual financial statements and consolidated financial statements;

g) The preparation of the general meeting of shareholders of the Company and the implementation of its resolutions;
h) Notification to the judge in case of a capital loss (“Unterbilanz”) of the Company and in case of over indebtedness (“Überschuldung”; art. 725-725a CO); and
i) Preparation of the remuneration report.

By Swiss law, the Board of Directors also has the following non-transferable competencies: Decisions in connection with capital increases pursuant to art. 651a, 652g, 653g CO (acknowledgement of capital increase) and art. 651 IV CO (increase of share capital in the case of authorized capital); decisions pursuant to art. 634a I CO (shares not fully paid in) and resolutions pursuant to the Swiss Merger Act.

The Board of Directors held 19 meetings in 2018.

Board of Directors attendance

	Attendance 2018				
	Board meetings	Audit Committee	Remuneration Committee****	Investment Committee*****	Nomination Committee******
Torgny Hellström	17/19	7/7	5/5	4/5	1/7
Fredrik Waker	18/19	7/7	–	–	–
Erik Fällström	15/19	–	–	5/5	–
Mikael Nachemson*	15/19	–	–	–	–
Kent Hansson**	12/19	–	5/5	1/5	6/7
Manuel Vogel***	11/19	4/7	–	–	–

* Board member until 6 December 2018

** Chairman of the Board and member of the remuneration committee until 23 May 2018

*** Board member and member of the audit committee until 23 May 2018

**** Kent Hansson was a member of the remuneration committee until 23 May 2018, when he was replaced by Erik Fällström

***** The investment committee’s tasks were performed by the Board until the AGM on 23 May 2018, when Erik Fällström (chair), Torgny Hellström and Alessandro Pappalardo were appointed to the investment committee

****** The nomination committee was established in February 2018 and consists of members Joachim Cato (chair), representing Demeter Finance Sarl, a significant shareholder in DDM Holding AG; Mattias Ledunger, representing Praktikertjänst, a significant shareholder in DDM Holding AG, and Torgny Hellström

The Board’s committees

The overall responsibility of the Board of Directors cannot be delegated, however the Board may, within itself, set up committees which prepare, follow up on and evaluate issues within their respective spheres ahead of decisions by the Board. The Board set up an audit committee and a remuneration committee in March 2015, an investment committee in March 2016 and a nomination committee in February 2018. The committees’ members are appointed at the Board Meeting following election held after the Annual General Meeting and their work is governed by the committees’ formal work plans and instructions.

Audit Committee

The audit committee prepares a number of issues for consideration by the Board and thereby supports the Board in its endeavors to fulfil its responsibilities within the areas of auditing and internal control and with assuring the quality of DDM’s financial reporting. The audit committee meets on a regular basis. The audit committee was comprised of Fredrik Waker (Chair), Manuel Vogel and Torgny Hellström until 23 May 2018, after when Manuel Vogel was no longer on the audit committee. The committee’s meetings are also attended by DDM’s CFO. The committee held three meetings during the year. Special attention was paid in 2018 to the auditors’ reviews, internal controls, the acquisitions in the year and financing.

The audit committee works on the basis of a set of “Instructions for the audit committee” adopted every year by the Board of Directors and reports back to the Board on the results of its work.

Remuneration Committee
The remuneration committee submits proposals for resolution by the Board regarding remuneration and other terms of employment for the Board and the Executive Management Committee. The remuneration committee is, furthermore, tasked with submitting proposals regarding remuneration principles for the Board and the Executive Management Committee – proposals which are then submitted to the Board. The application of the guidelines and relevant remuneration structures and levels within the Company is also followed up by the committee.

The remuneration committee works on the basis of a set of "Instructions for the remuneration committee" adopted every year by the Board of Directors and reports back to the Board on the results of its work. The remuneration committee comprised Torgny Hellström (Chair) and Kent Hansson until the AGM on 23 May 2018, when Erik Fällström replaced Kent Hansson. The committee held five meetings during the year.

Investment Committee
The investment committee has been delegated by the Board to assist the Board with selected investment-related matters, including strategy matters, significant investment approvals and supervision. The Committee is responsible for determining investment goals, reviewing the financial aspects of significant proposed transactions and for making specific investment decisions. The Committee is also responsible for review of compliance and performance relative to objectives, with a particular focus on risk identification and Management's mitigation of such risks legally and/or commercially in the Sales and Purchase Agreements, both prior to signing and during execution.

The investment committee works on the basis of a set of "Instructions for the investment committee" adopted every year by the Board of Directors and reports back to the Board on the results of its work.

If the Board considers it more appropriate, the entire Board may perform the investment committee's tasks. The investment committee's tasks were performed by the Board until the AGM on 23 May 2018, when Erik Fällström (chair), Torgny Hellström and Alessandro Pappalardo were elected to the investment committee. The committee held five meetings during the year.

Nomination Committee
The nomination committee is responsible for proposing candidates for the post of chair and other members of the board. In its assessment of the board's evaluation, the nomination committee is to give particular consideration to the requirements regarding breadth and versatility on the board, as well as the requirement to strive for gender balance. The nomination committee is also to present proposals on the election of the statutory auditor. The nomination committee's proposal to the shareholders' meeting on the election of the auditor is to include the audit committee's recommendation. If the proposal differs from the alternative preferred by the audit committee, the reasons for not following the committee's recommendation are to be stated in the proposal.

The nomination committee works on the basis of a set of "Instructions for the nomination committee" adopted every year by the Board of Directors and reports back to the Board on the results of its work. The nomination committee consists of members Joachim Cato (chair), representing Demeter Finance Sarl, a significant shareholder in DDM Holding AG; Mattias Ledunger, representing Praktikertjänst, a significant shareholder in DDM Holding AG, and Torgny Hellström. The committee held seven meetings during the year.

Internal governance systems

The most important internal steering instrument consists of the Articles that are adopted by the general meeting of shareholders. For the purpose of handling specific matters and exercising better supervision of DDM, the Board of Directors established an audit committee and a remuneration committee in March 2015, an investment committee in March 2016 and a nomination committee in February 2018.

Other steering instruments include the Board Rules and the Board of Directors' instructions for the CEO. In addition, from April 2015 the Board of Directors adopted a number of policies and instructions containing rules, including but not limited to: Code of Conduct, Communication Policy, Insider Policy and Guidelines, Policy for Risk Control, Finance Policy, Outsourcing Policy, Information Security Policy, and HR Policy for the entire Company's operations.

Individuals with an insider position

The members of the Board of Directors, the Executive Management Committee, the Company's auditor, a number of employees/contract personnel in DDM and individuals with certain functions in the Company's subsidiaries, who have a position that can normally be assumed to provide access to non-public, price sensitive information, have been registered as insiders in DDM. These individuals are obligated to report changes in their holdings of financial instruments in DDM Holding AG and DDM Debt AB.

DDM upholds a logbook of individuals who are employed or contracted by the Company and have access to insider information relating to the Company.

External auditor

The Annual General Meeting 2018 appointed PricewaterhouseCoopers AG (Werftestrasse 3, CH-6002 Luzern, Switzerland) as the independent auditor until the Annual General Meeting 2019.

Peter Eberli, born 1964, a certified accountant, is the auditor in charge.

The DDM Holding Group paid the below fees (including expenses) to its external independent auditors. The non-audit fees mainly relate to tax consultancy services for financing activities and other regulatory projects.

For the year ended 31 December EUR '000s	2018	2017
Audit		
Audit assignments	368	318
Total audit expenses	**368**	**318**

For the year ended 31 December EUR '000s	2018	2017
Non-audit		
Tax assignments	128	152
Other assignments	25	121
Total non-audit expenses	**153**	**273**

RISK FACTORS

Investment in DDM is associated with a number of risks

Numerous factors affect or may affect our operations, both directly and indirectly. Risk factors and major circumstances deemed to be of importance for DDM's business and future development are described on the right, in no particular order of priority and without claim to be exhaustive.

Risk awareness and management is an integral part of all employees' roles and responsibilities.

Albeit having a continuous process for monitoring risk, other risks as yet unknown to us, or which we at present deem to be insignificant, may in the future have a material adverse effect on DDM's business, results of operations or financial condition.

Market, financial and business related risks

Economic conditions in the markets in which DDM operates affect the business

DDM is exposed to the economic, market and fiscal conditions in the markets in which the Group operates and any positive or negative developments regarding these conditions. If the economy suffers a material and adverse downturn for a prolonged period of time that, in turn, increases the unemployment rate and/or impacts interest rates and the availability of credit, DDM may not be able to perform debt collection at levels consistent with historic levels due to the inability of debtors to make payments, at the same levels or at all, which could have an adverse effect on the Group's financial results. In addition, should the level of inflation increase, the real term carrying value of DDM's distressed asset portfolios may decrease.

There is a risk that economic conditions will not remain at the same level in the markets in which DDM operates, or that the net effect of any change in economic conditions will not be positive. An improvement in the economic conditions in the markets in which DDM operates could impact the business and performance in various ways including, but not limited to, reducing the number of attractive portfolio opportunities that are available for purchase and increasing the competitiveness of the pricing for portfolios that the Group purchases. There is a risk that the business and results of operations will not develop positively in this environment. Conversely, while adverse economic conditions and increased levels of unemployment may lead to higher default rates on claims, which in turn may increase the stock of portfolios available for DDM to purchase and increase the amount of loans and other overdue receivables, there is a risk that such potential increase in the amount of debt available to purchase will not compensate for the adverse effects of an economic downturn. Accordingly, any of these developments could have a material adverse effect on DDM's business, results of operations or financial condition.

The asset acquisition industry is competitive

DDM operates in a fragmented and highly competitive industry and is exposed to both domestic and international competition. DDM may face bidding competition in acquisition of distressed asset portfolios and believes that successful bids are awarded based on price and a range of other factors including, but not limited to, service, compliance, reputation and relationships with the sellers of distressed asset portfolios. Some of the Group's current competitors, and potential new competitors, may have more effective pricing and collection models, greater adaptability to changing market needs and more established relationships in the industry and geographic markets where the Group operates. Moreover, competitors may elect to pay prices for distressed asset portfolios that DDM determine are not economically sustainable and, in that event, the volume of debt portfolio purchases may be diminished. There is a risk that DDM cannot compete successfully with existing or future competitors and that existing or potential sellers of distressed asset portfolios will continue to sell their portfolios at attractive levels or at all, or that DDM will continue to offer competitive bids for distressed asset portfolios.

Some of DDM's current competitors, and potential new competitors, may have substantially greater financial resources, less expensive funding or lower return requirements than the Group currently has. Additionally, in the future DDM may not have the financial resources to offer competitive bids for portfolio purchases and debt collection contracts, especially when competing with competitors who have greater financial resources. There is a risk that DDM will not be able to develop and expand its business or adapt to changing market needs as well as current or future competitors. Any of these developments could have a material adverse effect on the Group's business, results of operations or financial condition.

DDM is exposed to regulatory risks

DDM operates in a variety of jurisdictions and must comply with applicable laws, regulations, licenses and codes of practice across all jurisdictions, including, among other things, with respect to statutes of limitation. Changes to the regulatory or political environments in which the Group operates, a failure to comply with applicable laws, regulations, licenses and codes of practice or failure of any employees to comply with internal policies and procedures may negatively affect DDM's business. DDM is subject to complex regulations in the jurisdictions in which the Group operates, including, but not limited to, laws and regulations regarding data protection, debt collection, debt purchasing and anti-money laundering and terrorist financing at the national and supranational level.

RISK FACTORS

There is a risk that DDM's policies and procedures will not prevent breaches of applicable laws and regulations or that any investigations will not identify such breaches in a timely manner or at all. Any such delay or failure could have a material adverse effect on DDM's business, results of operations or financial condition. Supervisory authorities in each country in which DDM operates may determine that the Group does not fully comply with, is in violation of, or in the past has violated applicable rules, regulations or administrative guidelines. If DDM's policies and procedures are deemed not to be in compliance, or are deemed not to have previously been in compliance, with relevant legal requirements or applicable legal requirements or applicable laws, regulations or administrative guidelines, this could have a material adverse effect on the Group's business, results of operations or financial condition.

The Swiss Federal Council (the executive branch of the Swiss federal government) has adopted rules against excessive remuneration in listed companies by implementing the Ordinance Against Excessive Compensation at Listed Companies (*D. Verordnung gegen übermässige Vergütungen bei börsenkotierten Aktiengesellschaften*) (the "VegüV"). The VegüV applies to corporations organized under Swiss law whose shares are listed on a stock exchange in or outside Switzerland. Non-compliance with the VegüV regime may result in personal liability for the members of the board of directors or the management of a company and/or in a company's remuneration arrangements for its members of the Board of Director or management being null and void. DDM has adapted its governance to the VegüV. In the event that DDM is found not to comply (or not to have complied) with, or is found not to have timely or adequately adapted to the VegüV regime, this could have a material adverse effect on the Group's business, results of operations or financial condition.

Compliance with the extensive regulatory framework is expensive and labor intensive. Failure to comply with applicable laws, regulations and rules, new or amended legislations and regulations, or failure to comply with a contractual compliance obligation, could result in investigations and enforcement actions, licenses that the Group needs to do business not being renewed, being revoked or being made subject to more onerous or disadvantageous conditions, fines or the suspension or termination of its ability to conduct collections. In addition, such failure to comply or revocation of a license, or other actions by DDM, may damage the Group's reputation. Damage to DDM's reputation, whether because of a failure to comply with applicable laws, regulations or rules, or revocation of a license or any other regulatory action or failure to comply with a contractual compliance obligation, could have a material adverse effect on the Group's business, results of operations or financial condition.

DDM is dependent on its employees and exposed to risks associated with their activities

DDM's future development depends largely on the skills, experience and commitment of the Group's employees. Therefore it is important for DDM's future business activities and development that it is able to retain and, where necessary, also recruit skilled employees. It is also of importance that DDM ensures that notice periods are included in employment and service contracts to try to reduce possible disruptions in the ongoing operations. Should DDM become unable to retain or recruit suitable employees, this could have a material adverse effect on the DDM's business, results of operations or financial position.

Further, individual employees may act against the Group's instructions or internal policies and either inadvertently or deliberately violate applicable law, including, but not limited to, competition laws and regulations by engaging in prohibited activities such as price fixing or colluding with competitors regarding markets or clients. Any such actions could have a material adverse effect on the Group's business, results of operations or financial condition.

DDM is dependent on key business relationships and third parties

DDM's future development depends largely on the key business relationships with sellers, debt collection agencies, advisors, co-investors and other parties. It is therefore important for DDM's future business activities and development that it is able to maintain existing relationships and develop further relationships with such parties if necessary. Should the Group become unable to maintain or develop further key business relationships it could have a material adverse effect on the Group's business, results of operations or financial condition. Further, the third parties that the Group engage to carry out debt collection services are subject to limited supervision, which may expose the Group to additional risks in relation to these services, such as potential non-compliance and business integrity issues or if there were to be any breach in the data protection of any of these third party providers, all of which could significantly harm the Group's reputation.

Additionally, the Group or its partners may utilize bailiffs to assist with seizure of property and other court ordered solutions and to enforce certain successfully resolved legal claims. There is a risk that the Group will not successfully eliminate the risk that a third party does not meet the agreed service levels or may act outside of the applicable frameworks or the Group's own policies and procedures. Any such actions could have a material adverse effect on the Group's business, results of operations or financial condition.

DDM may not be able to collect sufficient amounts on distressed asset portfolios

Due to the length of time involved in collecting non-performing debt on acquired distressed asset portfolios, DDM may not be able to identify economic trends or make changes in acquiring strategies in a timely manner. This could result in a loss of value in a portfolio after acquisition. Analytical models may not identify changes that originators make in the quality of the distressed asset portfolios that they sell. If DDM overpays for distressed asset portfolios, and thus the value of acquired assets and cash flows from operations are less than anticipated, the Group may have difficulty servicing debt obligations and may not be able to acquire new portfolios. Further, if purchased portfolios do not generate expected cash flows over specified time horizons it may be necessary to make downward revaluations of the portfolios, all of which could have a material adverse effect on the Group's business, results of operations or financial condition.

Risks related to investments in SPVs

An investment in a loan to or the taking of an exposure in relation to a SPV entails, in addition to the risks involved in an investment in a loan portfolio, risks relating to the capital structure and contractual arrangement of such SPV, including but not limited to, layering of instruments, intercreditor arrangements, lack of perfection actions and valid underlying security, lack of control and ability to influence, exposure to regulatory requirements and applicable insolvency regimes. If any of such risks materialize, there is a risk that DDM's business, results of operations or financial condition is adversely affected.

DDM's models and analytical tools to value and price portfolios may prove to be inaccurate

DDM uses internally developed models and input from advisors such as real estate valuation experts to value and price portfolios that the Group considers for purchase and to project the remaining cash flow generation from distressed asset portfolios. There is a risk that the Group will not be able to achieve the recoveries forecasted to value the portfolios, that the models are not transferable to other types of assets or that the models are flawed. There is a risk that the models will not appropriately identify or assess all material factors and yield correct or accurate forecasts as historical collections may not reflect current or future realities. Further, employees could make misjudgments or mistakes when utilizing the Group's statistical models and analytical tools. In addition, the Group's statistical models and analytical tools assess information which to some extent is provided by third parties, such as credit agencies, consultants performing asset valuation services, consultants performing audits of for example loan documentation, and other mainstream or public sources, or generated by software products. DDM only has limited control over the accuracy of such information received from third parties. If such information is not accurate, portfolios may be incorrectly priced at the time of purchase, the recovery value for portfolios may be calculated inaccurately, the wrong collection strategy may be adopted and lower collection rates or higher operating expenses may be experienced.

Further, historical information about portfolios may not be indicative of the characteristics of subsequent portfolios purchased from the same debt originator or within the same industry due to changes in business practices or economic development. Any of these events may have a material adverse effect on DDM's business, results of operations or financial condition.

RISK FACTORS

DDM may make new investments or pursue co-investments that prove unsuccessful

DDM has historically invested in consumer and corporate debt portfolios. In the future DDM may consider acquiring distressed assets portfolios with other types of underlying assets (e.g. retail performing unsecured assets or corporate/SME performing unsecured assets) and/or apply new transaction structures including, but not limited to, acquiring minority interest or entire companies or businesses in DDM's current geographical markets or in new markets. Such investments are exposed to a number of risks and uncertainty including, but not limited to, with respect to collections, ownership, rights, assets, liabilities, taxation, accounting treatment, licenses and permits, legal proceedings, financial resources and other aspects. These risks may be greater, more difficult or more extensive to analyze if DDM acquires new asset types and/or enters into unfamiliar countries or regions. Further, such investments involve risks due to difficulties in integrating operations, models, technology, information technology and hiring competent personnel. Any difficulties relating to new asset types, entering other markets or applying new transaction structures could require DDM to divert attention or funds from DDM's current core operations, which may affect the ability to generate a return on capital, service financing obligations, purchase portfolios and pursue portfolio acquisitions or other strategic opportunities and may impact DDM's future growth potential, and could have a material adverse effect on DDM's business, results of operations or financial condition.

There may not be a sufficient supply of distressed asset portfolios, or appropriately priced assets, to acquire

The availability of distressed asset portfolios at prices that generate profits depends on a number of factors, many of which are outside of DDM's control. If originators choose to rely more heavily on collection agencies, there would be a reduction in the availability of assets that are early in the financial difficulty cycle and have had little or no exposure to collection activity. These "fresher" assets typically have higher collection expectations. If originators were to perform more of their own collections, or were to further outsource collections to collection agencies, the volume of assets for sale or the quality of assets sold could decrease and consequently, DDM may not be able to buy the type and quantity of assets at prices consistent with its historic return targets. If DDM is unable to acquire non-performing asset portfolios at appropriate prices, the Group could lose a potential source of revenue and its business may be harmed. If DDM does not continually replace serviced portfolios with additional portfolios, this could have a material adverse effect on DDM's business, results of operations or financial condition.

DDM may be unable to collect debts or it could take several years to realize cash returns on investments in acquired portfolios

DDM may not be able to collect debts contained in its acquired portfolios. DDM acquires distressed asset portfolios at a discount to face value and collects the outstanding debt. There is a risk that assets contained in DDM's portfolios cannot eventually be collected by the Group or its partners. The risk in this business is that DDM upon acquisition of invested assets would overestimate its ability to collect amounts, underestimate the costs of collection or misjudge whether the acquired assets are valid, existing and enforceable. If DDM were to become unable to collect the expected amounts contained in its portfolios it could have a material adverse effect on the Group's business, results of operations or financial condition. Further, after taking into consideration direct and indirect operating costs, financing costs, taxes and other factors, it may take several years for DDM to recoup the original acquisition price of investment in distressed asset portfolios. During this period, significant changes may occur in the economy, the regulatory environment or DDM's business or markets, which could lead to a substantial reduction in expected returns or reduce the value of the distressed asset portfolios that have been acquired which could have a material adverse effect on the Group's business, results of operations or financial condition.

The seasonality of DDM’s business may lead to volatility in cash flow

DDM’s business depends on the ability to collect on distressed asset portfolios and purchase of such portfolios. Debt collection is highly affected by seasonal factors including, but not limited to, the number of work days in a given month, the propensity of debtors to take holidays at particular times of the year and annual cycles in disposable income. Accordingly, collections within portfolios tend to have high seasonal variances, resulting in high variances of margins and profitability between quarters. Furthermore, DDM’s debt portfolio purchases are likely to be uneven during the year due to fluctuating supply and demand within the market. The combination of seasonal collections and uneven purchases may result in low cash flow at a time when attractive distressed asset portfolios become available. There is a risk that in the future the Group will not be able to obtain interim funding from shareholders or make other borrowings. A lack of cash flow could prevent DDM from purchasing otherwise desirable distressed asset portfolios or prevent the Group to meet obligations, e.g. to pay interest, either of which could have a material adverse effect on the Group’s business, results of operations or financial condition.

DDM is exposed to the risk of currency fluctuations

DDM’s revenue on invested assets is primarily denominated, inter alia, in EUR, Croatian kuna, Czech koruna, Hungarian forint, Romanian leu and Serbian dinar while DDM reports financial results in EUR. Further, DDM acquires portfolios with accounts denominated mainly in EUR, Croatian kuna, Czech koruna, Hungarian forint, Romanian leu and Serbian dinar and will service these accounts through the placement and collections process. The Group may further be exposed to additional currencies as a consequence of geographically expanding its business operations.

Historically, bonds issued in Swedish krona have to a large extent funded DDM, however in the first quarter of 2017 the outstanding bonds were refinanced and replaced by bonds issued in Euro. The headquarters of the Group is located in Switzerland and a significant share of the operating expenses are thereby incurred in CHF.

The exchange rates between some of these currencies and EUR have fluctuated significantly in recent years and DDM's local currencies may in the future fluctuate significantly. Consequently, to the extent that foreign exchange rate exposures are not hedged, fluctuations in currencies may adversely affect the Group's financial results in ways unrelated to the operations and could affect the Group’s financial statements when the results of its portfolios are translated into EUR for reporting purposes. Any of these developments could have a material adverse effect on DDM's business, results of operations or financial condition.

DDM is exposed to errors in the collection process and other operational issues or negative attention and news regarding the debt collection industry, individual debt collectors or sellers of portfolios

Debtors may become more reluctant to pay their debts in full or at all or become more willing to pursue legal actions against DDM. Print, television or online media may, from time to time, publish stories about the debt collection or asset acquisition industry that may cite specific examples of real or perceived abusive collection practices. Further, debt collection is a relatively new phenomenon in some of the markets where DDM is active, which could bring further attention to DDM, promoting negative publicity. These stories can be published on websites, which can lead to the rapid dissemination of the story and increase the exposure to negative publicity about DDM or the industry. There are websites where debtors may list their concerns about the activities of debt collectors and financial institutions and seek guidance from other users on how to handle the situation. These websites are increasingly providing debtors with legal forms and other strategies to protest collection efforts and to try to avoid their obligations. To the extent that these forms and strategies are based upon erroneous legal information, there is a risk that the cost of collections is increased. Debtor blogs and claims management companies are becoming more common and add to the negative attention given to the industry. Certain of these organizations may also enable debtors to negotiate a larger discount on their payments than DDM would otherwise agree to. As a result of this publicity, debtors may be more reluctant to pay their debts or could pursue legal action against DDM regardless of whether those actions are warranted. These actions could impact DDM’s ability to collect on the assets acquired and could have a material adverse effect on DDM's business, results of operations or financial condition.

DDM may acquire portfolios that contain accounts that are not eligible to be collected or could be the subject of fraud when acquiring distressed asset portfolios

In the normal course of portfolio acquisitions, there is a risk that assets may be included in the portfolios that fail to conform to the terms of the acquisition agreements and DDM may seek to return these assets to the seller for refund or replacement of new cases. However, there is a risk that the provisions of the relevant acquisition agreement will not allow for such returns, that the seller will be able to meet its obligations or that DDM will identify non-conforming accounts soon enough to qualify for recourse. Accounts that would be eligible for recourse if discovered in a timely fashion but that DDM is unable to return to sellers are likely to yield no return. If DDM acquires portfolios containing a large amount of non-conforming accounts or containing accounts that are otherwise uncollectible, the Group may be unable to recover a sufficient amount for the portfolio acquisition to be profitable, which would have a material adverse effect on DDM's business, results of operations or financial condition.

In addition, due to fraud by a seller, a consultant or by one of the DDM group employees, DDM could acquire so-called "phantom portfolios" that have been sold to more than one person or where the assets are not valid, existing and enforceable or the debtor is not an existing person. DDM would not be able to collect on a portfolio to which it has no legal ownership, or would need to spend time and resources establishing its legal ownership of the portfolio if such ownership is uncertain. The internal controls DDM has in place to detect such types of fraud may fail. If DDM is the victim of fraud, it could have an impact on the Group's cash flow or reduce its collections from invested assets, in either case potentially adversely impacting DDM's business, results of operations or financial condition.

DDM's collections may decrease if the number of debtors becoming subject to personal insolvency procedures increases

DDM recovers on assets that become subject to insolvency procedures under applicable laws, and acquires accounts that are, at the time of the acquisition, subject to insolvency proceedings. Various economic trends and potential changes to existing legislation may contribute to an increase in the number of debtors subject to insolvency procedures. Under some insolvency procedures a person's assets may be sold to repay creditors, but since the non-performing assets may be unsecured, DDM may not be able to collect on those assets. DDM's ability to successfully collect on its distressed asset portfolios may decline following an increase in personal insolvency procedures or a change in insolvency laws, regulations, practices or procedures. If actual collections with respect to a distressed asset portfolio are significantly lower than projected when DDM acquired the portfolio, this would have a material adverse effect on DDM's business, results of operations or financial condition.

DDM may not be able to successfully maintain and develop its IT or data analysis systems

DDM's proprietary IT System, FUSION, provides possibilities to analyze and bid for new investments and manage current assets, and is essential for DDM to carry out its business. IT and telecommunications technologies are evolving rapidly. DDM may not be successful in anticipating, managing or adopting technological changes on a timely basis and may not be successful in implementing improvements to the Group's IT or data analysis systems. The costs for such improvements could be higher than anticipated or result in management not being able to devote sufficient attention to other areas of the Group's business. Also, any security breach in DDM's IT system, or any temporary or permanent failure in the system or loss of data, could disrupt operations and have a material adverse effect on DDM's business, results of operations or financial condition.

The Group is exposed to refinancing risk

DDM's business is to a large extent funded by bonds with final maturity in January 2020 and December 2020. The bonds may, however, under certain circumstances set out in their respective terms and conditions, be redeemed by DDM or accelerated by the bondholders prior to their relevant final maturity date. There is a risk that there will be no correlation in time between collecting on sufficient assets under DDM's portfolios and the maturity of DDM's funding. Therefore, DDM is dependent on the ability to refinance borrowings upon their maturity and there is a risk that DDM will not be able to successfully refinance the bond loans upon their maturity or only succeeds in securing funding at substantially increased costs, which could have a material adverse effect on DDM's business, results of operations or financial condition.

DDM is exposed to the risk of inaccurate application of, and future changes in tax legislation

DDM manages its operations in a number of countries. There is a risk that DDM's understanding or interpretation of current tax laws, tax treaties, other tax law stipulations and interpretation of the requirements of the tax authorities concerned when conducting its business or when carrying through transactions between the DDM's companies, is not correct. Further, there is a risk that the tax authorities of the countries concerned will make assessments and take decisions that deviate from DDM's understanding or interpretation of the abovementioned laws, treaties and other regulations. DDM's tax position both for previous years and the present year may change as a result of the decisions of the tax authorities concerned or as a result of changed laws, treaties and other regulations. Such decisions or changes, possibly retroactive, could have a material adverse effect on DDM's business, results of operations or financial condition.

Dependency on regulatory oversight and regulatory approval and consent in various markets

The Group is dependent on regulatory licenses in order to carry out its business. Obtaining and maintaining licenses and being in compliance with the regulatory framework can be expensive or labor intensive. Furthermore, there is a risk that, for a market in which the Group operates and where a license is required, the Group will not be able to obtain, maintain or renew such licenses. If the relevant authorities were to withdraw such licenses for any reason, there is a risk that the Group might have to cease part or all of its business in the relevant country, having an adverse effect on the Group's business, financial position and results. These risks vary between the markets, with more significant risks relating to regulatory oversight and approval, licenses and filings, in Greece, Hungary, Slovenia and Croatia.

Certain investment strategies, including co-investments and joint ventures, may limit DDM's control over particular investments.

If DDM makes co-investments together with third parties, such as the co-investments pertaining to the portfolios located in Hungary, or enters into joint ventures with third parties, DDM's ability to exercise control over these investments may be limited. Further, the interests of DDM's co-investment partners and any persons with which it pursues joint ventures may conflict with DDM's interests. There is a risk that any such conflict would not be resolved in DDM's favor which could have a material adverse effect on DDM's business, results of operations or financial condition.

DDM is dependent on future financing on attractive terms

DDM's business model and strategy entails that it regularly acquires additional distressed asset portfolios in existing or new markets. This business model and strategy may require additional debt or equity funding. The access to and the terms of such additional financing are affected by a number of factors including, but not limited to, successful collection on current distressed asset portfolios, terms and conditions of DDM's financing arrangements and related security arrangements, the general availability of capital and DDM's credit worthiness and credit capacity. Disruptions and uncertainty in the credit and capital markets may also limit access to additional capital. Should DDM become unable to secure additional funding, or only succeeds in securing additional funding on unfavorable terms, it could have a material adverse effect on DDM's business, results of operations or financial condition.

Risk of limited access to capital

The sub-prime and European financial crises have demonstrated certain inherent weaknesses in the global financial system. This can result in the weakening of confidence in financial markets, which may in turn lead to a reduced supply of money. DDM is currently growing quickly and uses external funding in order to support its rapid expansion. Typically, any disturbances in the banking and financial sector negatively affect leveraged businesses by increasing the cost of money necessary to conduct the day-to-day business and fuel their expansion, and by limiting access to funding. A limited availability of credit and limitations in access to financial and capital markets, combined with rising credit costs, may slow down, deteriorate, or even prevent the growth and further expansion of DDM entirely. In addition, the limitations may undermine DDM’s potential to be profitable, which may have a material adverse effect on DDM’s business, financial condition, results of operations and prospects.

DDM may not have adequate insurance coverage

There is a risk of DDM’s existing insurance coverage not being adequate for possible future needs and of DDM not being able to maintain the existing insurance coverage at a reasonable cost or maintain adequate insurance coverage. Moreover, the coverage that DDM obtains via its insurance policies may be limited, for example on account of monetary limits and the need to pay an excess or by the insurance company not compensating the full loss. It may be difficult and time-consuming to obtain compensation from insurance companies for losses covered by DDM’s policies. Consequently, there is a risk that DDM’s insurance cover will not cover all potential losses, whatever the cause, or of relevant insurance coverage not always being available at an acceptable cost, which could have a material adverse effect on the DDM’s business, results of operations or financial condition. Claims against DDM may also, regardless of the insurance coverage, result in an increase in the premiums DDM pays under its insurance contracts. Significant increases in insurance premiums may have a material adverse effect on DDM’s business, results of operations or financial condition.

Litigation, investigations and proceedings may negatively affect DDM's business

DDM may be adversely affected by judgments, settlements, unanticipated costs or other effects of legal and administrative proceedings that are pending or may be instituted in the future, or from investigations by regulatory bodies or administrative agencies. DDM may also become subject to claims and a number of judicial and administrative proceedings considered normal in the course of the Group's operations including, but not limited to, consumer credit disputes, labor disputes, contract disputes, intellectual property disputes, government audits and proceedings, other disputes and tort claims. In some proceedings, the claimant may seek damages as well as other remedies, which, if granted, would require expenditures and may ultimately incur costs relating to these proceedings that exceed DDM's present or future financial accruals or insurance coverage. Even if the Group or its directors, officers and employees (as the case may be) are not ultimately found to be liable, defending claims or lawsuits could be expensive and time consuming, divert management resources, damage DDM's reputation and attract regulatory inquiries. Any of these developments could have a material adverse effect on DDM's business, results of operations or financial condition.

Risks associated with expanding the business of DDM

As DDM has experienced significant growth and expansion in its current markets, and due to its establishment in new markets, DDM may experience significant strains on its managerial, operational and financial resources associated with the hiring and training of new employees, and the development and management of business functions and relationships with clients. A successful expansion is furthermore dependent on DDM's ability to adapt its organization, know-how, and financial position to meet the various challenges associated with an extensive expansion and to acquire portfolios with sought after profitability. Hence, there is a risk that DDM invests time and financial resources in expansion strategies which turn out not to be successful, which would have an adverse effect on DDM's business, results of operations or financial condition.

DDM's geographic presence and expansion exposes the Group to local risks in several European markets

DDM currently has invested in distressed assets mainly in Greece, Croatia, the Czech Republic, Slovenia, Romania, Hungary and Serbia. The Group's business is subject to local risks due to the operations in multiple Southern, Central and Eastern European markets including, but not limited to, multiple national and local regulatory and compliance requirements relating to labor, licensing requirements, consumer credit, data protection, anti-corruption, anti-money laundering and other regulatory regimes, potential adverse tax consequences, antitrust regulations, an inability to enforce remedies in certain jurisdictions and geopolitical and social conditions in certain sectors of relevant markets. Furthermore, some of these countries, such as Greece, Serbia and Croatia, have relatively undeveloped collection markets with limited portfolio transactions. Consequently, there could be unforeseen risks and there may be unanticipated obstacles negatively effecting the Group. Hence, there is a risk that the Group invests time and financial resources in expansion strategies which turn out not to be successful, which could have an adverse effect on the Group's business, results of operations or financial condition.

Furthermore, when entering new markets DDM could face additional risks including, but not limited to, incurring startup losses for several years due to lower levels of business, ramp up and training costs, the lack of expertise in such markets, the lack of adequate and available management teams to monitor these operations, unfavorable commercial terms and difficulties in maintaining uniform standards, control procedures and policies. Any negative impact caused by the foregoing risks could have a material adverse effect on the Group's business, results of operations or financial condition. In addition, if DDM expands into new jurisdictions, the business will be subject to applicable laws, regulations and any licensing requirements in such new jurisdictions, which may be different or more stringent than the jurisdictions in which the Group currently operates.

Risk connected with related party transactions

Certain major shareholders of DDM Holding AG currently hold positions in the board of directors and management of DDM. There is a risk that such shareholders and the Group enter into transactions and arrangements as related parties and that the transactions will be challenged by for example the tax authorities, auditors or other regulatory authorities, which could have a negative effect on DDM's business, results of operations or financial condition.

COMPENSATION REPORT

Compensation Report

1. Introduction

The Compensation Report outlines the principles behind, and the elements of, the remuneration paid to the Board of Directors ("Board") and the Executive Management Committee ("EMC") of DDM Holding AG ("DDM"). It details the remuneration paid to the Board and EMC in accordance with the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies ("OaEC/VegüV"). This Compensation Report will be submitted to the annual general meeting of DDM to be held on 28 May 2019 ("AGM") for a consultative vote.

2. Guiding principles on remuneration

The Board has overall responsibility for defining the remuneration principles of DDM and the proposed remuneration of the Board and EMC. The Board has delegated the preparatory work involved to the Remuneration Committee, which submits its proposal to the Board for review and approval.

The purpose and aim of the Remuneration Committee is to ensure that DDM has access to the competence required at an appropriate cost, and that the existing remuneration scheme has the intended effects for DDM's operations.

DDM is committed to offer and maintain competitive remuneration which is designed to attract, retain, and motivate talented individuals, along the following principles:

Fair and transparent
Remuneration is clearly structured, transparent and based on the respective responsibilities and competencies.

Competitive and market-aligned
Remuneration levels are competitive and in line with relevant market practice.

Pay for performance
A proportion of the remuneration is directly linked to the achievement of DDM and individual performance goals.

As a general rule, members of the Board receive a fixed remuneration in cash whereas the remuneration for all members of the EMC consists of fixed remuneration and a success-dependent variable remuneration (both in cash).

All members of the Board as well as the members of the EMC have a notice period of up to 12 months. In addition, the employment contracts do not include any severance payments and there are no change-of-control clauses in place.

3. Organization and competencies

Remuneration Committee

In general, the Board is responsible for determining the remuneration for the members of the Board and the EMC, based on the recommendations from the Remuneration Committee. As per the Articles of Association in place, the Remuneration Committee consists of at least two members of the Board to be individually elected by the AGM for a term of office until completion of the next annual general shareholder's meeting. The determination of such remuneration is subject to final shareholder approval at the AGM.

Within the scope of the Board's duties, the Remuneration Committee assists the Board by preparing proposals on remuneration, monitoring and evaluating on a regular basis the structures and levels of remuneration for the Board, the CEO and other members of the EMC. The main tasks of the Remuneration Committee, based on a charter issued by the Board, are:

- Prepare the Board's decisions on issues concerning principles for remuneration and other terms of employment for the Board and the EMC;
- Monitor and evaluate programs for variable remuneration, both ongoing and those that have ended during the year, for the EMC;

- Prepare the Board's proposals to the shareholders' meetings with regard to remuneration of the Board and the EMC;
- Monitor and evaluate the application of guidelines for remuneration, as well as the current remuneration structures and levels in DDM.

Information process between the Board and the Remuneration Committee

The Remuneration Committee holds at least one meeting during the period between two consecutive AGM's. The Remuneration Committee held five meetings during 2018.

Furthermore, the Remuneration Committee gives oral reports to the Board in relation to its work, makes proposals on matters that require the Board's approval.

Competencies regarding the determination of the remuneration

	Remuneration Committee	**Board**	**Shareholders (AGM)**
Chairman remuneration	*Proposal*	*Decision*	*Approval*
Board remuneration	*Proposal*	*Decision*	*Approval*
CEO remuneration (incl. performance goals for the short term incentive)	*Proposal*	*Decision*	*Approval*
Other Executives remuneration (incl. performance goals for the short term incentive)	*Proposal*	*Decision*	*Approval*

Say on pay vote at the AGM

At the AGM, the Board submits to the shareholders the maximum aggregate amount of remuneration of the Board and the EMC for binding approval. The voting mechanism set forth by the Articles of Association provides for approval of the following items by the AGM:

a) the maximum aggregate amount of the fixed compensation of the Board for the following term of office;
b) the maximum aggregate amount of fixed compensation of the EMC for the financial year following the AGM;
c) the aggregate amount of variable compensation of the EMC for the current financial year

The following agenda items will be submitted to the shareholders for approval at the 2019 AGM:

d) the maximum aggregate amount of fixed compensation for the Board for the period from the end of the AGM until the end of the 2020 annual general meeting
e) the maximum aggregate amount of fixed compensation for the EMC for the financial year 2020
f) the maximum aggregate amount of variable compensation for the EMC for the financial year 2019

4. Remuneration elements

Board of Directors

All members of the Board receive cash remuneration for their services as members of the Board.

Furthermore, the Board may grant special remuneration to any member of the Board who performs any special or extra services to or at the request of DDM. Special remuneration may be made payable to a member of the Board who has performed any special or extra services in addition to his ordinary remuneration.

Executive Management Committee

All members of the EMC receive a fixed remuneration for their services as an EMC member. In addition to the fixed remuneration, the EMC members are entitled to variable remuneration (i.e. bonus) which is defined in terms of a percentage of their fixed remuneration. The maximum bonus is determined taking into consideration the duties and responsibility of the recipients. The Board approved a scorecard for the EMC for the financial year 2018 and the allocation of variable remuneration is based on effective results against this scorecard. The scorecard includes parameters such as investments, portfolio performance, financial performance.

5. Remuneration for financial year 2018

This chapter is subject to audit according to art. 17 OaEC/VegüV.

a. Remuneration to the members of the Board

For the financial year 2018, the non-executive members of the Board received the following remuneration for their activities.

(in thousands of CHF)	**Torgny Hellström,** chairman since 23-May-18 1)	**Fredrik Waker** 1)	**Erik Fällström** 1)	**Mikael Nachemson** until 6-Dec-18 1)	**Kent Hansson,** chairman until 23-May-18 1)	**Manuel Vogel,** vice-chairman until 23-May-18 1)	**Total**
Board fee	108	76	79	46	38	32	379
Other compensation	84	-	-	-	116	28	228
Total	**192**	**76**	**79**	**46**	**154**	**60**	**607**
Employer's social fees	22	16	16	9	8	3	74
Employer's pension contribution	-	-	-	-	-	2	2
Total	**22**	**16**	**16**	**9**	**8**	**5**	**76**
Total	**214**	**92**	**95**	**55**	**162**	**65**	**683**
Loans & credits (31-Dec-2018)	-	-	-	-	-	-	-

1) Excludes VAT, if applicable.

For the financial year 2017, the non-executive members of the Board received the following remuneration for their activities.

(in thousands of CHF)	**Kent Hansson,** chairman 1)	**Manuel Vogel,** vice-chairman 1)	**Torgny Hellström** 1)	**Fredrik Waker** 1)	**Dovilé Burgiené** until 31-May-17 1)	**Erik Fällström** since 31-May-17 1)	**Andreas Tuczka** June – 10-Sept -17 1)	**Mikael Nachemson** since 18-December-17 1)	**Total**
Board fee	96	80	50	50	21	29	14	2	341
Other compensation 2)	350	95	-	-	-	-	-	-	445
Total	**446**	**175**	**50**	**50**	**21**	**29**	**14**	**2**	**786**
Employer's social fees	20	7	10	-	-	-	-	-	37
Employer's pension contribution	-	5	-	-	-	-	-	-	5
Total	**20**	**12**	**10**	**-**	**-**	**-**	**-**	**-**	**42**
Total	**466**	**187**	**60**	**50**	**21**	**29**	**14**	**2**	**828**
Loans & credits (31-Dec-2017)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**

1) Excludes VAT, if applicable.

2) Includes compensation for consulting services provided.

As of December 31, 2018 no loans and credits (2017: CHF 0) were granted to and are still outstanding with current and former members of the Board or people who are closely linked to the Board.

During the financial year 2018, DDM paid no remuneration or severance payments to members of the Board after leaving their function. The same applies to the financial year 2017.

b. Remuneration to the members of the EMC

For the financial year 2018, the members of the EMC received the following remuneration for their activities.

(in thousands of CHF)	**Henrik Wennerholm, CEO** 1) 2) from 12-July-18	**Gustav Hultgren CEO** 1) Former Member of EMC	**EMC (other)**	**Total**
Fixed *	69	212	519	**800**
Fixed **	204	-	348	552
Variable	190	77	542	809
Total	**463**	**289**	**1,409**	**2,161**
Employer's social fees	129	21	102	252
Employer's pension contribution	130	-	35	165
Total	**259**	**21**	**137**	**417**
Total	**722**	**310**	**1,546**	**2,578**

1) Excludes VAT, if applicable.
2) Henrik Wennerholm was appointed as Head of Business Development from 2 May 2018 prior to being appointed as CEO from 12 July 2018
* Includes allowances
** Amount of supplemental fixed compensation used to cover new members of the EMC, according to Article 20 of the Articles of Association of the Company. Within the Column "EMC (other)" the following supplemental fixed compensation was paid out: Kent Hansson (former CEO): 228 TCHF, Andreas Tuczka (former CEO): 120 TCHF.

For the financial year 2017, the members of the EMC received the following remuneration for their activities.

(in thousands of CHF)	**Andreas Tuczka, CEO** 1) since 11-September-17	**Gustav Hultgren, CEO** until 11-September-17	**EMC (excl CEO)**	**Total**
Fixed *	7	255	360	622
Fixed **	112	-	-	112
Variable	-	77	324	401
Total	**119**	**332**	**684**	**1,135**
Employer's social fees	-	44	71	115
Employer's pension contribution	-	18	19	37
Total	**-**	**62**	**90**	**152**
Total	**119**	**393**	**774**	**1,287**
Loans & credits (31-Dec-2017)	**-**	**-**	**-**	**-**

1) Excludes VAT, if applicable.
* Includes allowances
** Amount of supplemental fixed compensation used to cover new members of the EMC, according to Article 20 of the Articles of Association of the Company.

As of December 31, 2018 no loans and credits (2017: CHF 0) were granted to and are still outstanding with current and former members of the EMC.

For the financial year 2018, DDM paid no severance payments to members of the EMC who gave up their function. The same applies for the financial year 2017.

Report of the statutory auditor to the General Meeting of DDM Holding AG, Baar

We have audited the compensation report of DDM Holding AG for the year ended 31 December 2018. The audit was limited to the information according to articles 14–16 of the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance) contained in the tables 5a. and 5b. on pages 39 to 40 in the accompanying compensation report that is included in the DDM Holding AG Annual Report 2018.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the compensation report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the compensation report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the compensation report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the compensation report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatements in the compensation report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the compensation report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the compensation report of DDM Holding AG for the year ended 31 December 2018 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers AG

Peter Eberli	Valentin Studer
Audit expert Auditor in charge	Audit expert

Luzern, 28 March 2019

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DDM IN FIGURES

FINANCIAL STATEMENTS AND NOTES

DDM HOLDING GROUP

Consolidated Financial Statements

THE BOARD OF DIRECTORS OF DDM HOLDING AG IS PLEASED TO PRESENT THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE FINANCIAL YEAR 2018

This report is dated 28 March 2019 and is signed on behalf of the Board of DDM Holding AG by

Torgny Hellström	Henrik Wennerholm
Chairman	*Chief Executive Officer*

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December Amounts in EUR '000s	Notes	2018	2017
Reconciliation of revenue on invested assets:			
Net collections		*65,669*	*37,434*
Amortization of invested assets		*(34,828)*	*(19,164)*
Interest income on invested assets		**30,841**	**18,270**
Revaluation and impairment of invested assets		*(2,597)*	*205*
Revenue on invested assets	6, 7	**28,244**	**18,475**
Other operating income	32	1,967	–
Revenue from management fees	6, 7	1,233	1,876
Personnel expenses	8	(4,816)	(3,422)
Consulting expenses	9	(2,443)	(2,381)
Other operating expenses	10	(1,987)	(1,236)
Amortization and depreciation of tangible and intangible assets		(130)	(143)
Operating profit		**22,068**	**13,169**
Financial expenses	11	(15,476)	(12,016)
Unrealized exchange (loss) / profit	11	(402)	594
Realized exchange loss	11	(261)	(526)
Net financial expenses		**(16,139)**	**(11,948)**
Profit before income tax		**5,929**	**1,221**
Tax expense	12	(1,112)	(557)
Net profit for the year		**4,817**	**664**
Net profit for the year attributable to:			
Owners of the Parent Company		**4,817**	**664**
Earnings per share before and after dilution (EUR)	13	0.36	0.05

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December Amounts in EUR '000s	2018	2017
Net profit for the year	**4,817**	**664**
Other comprehensive income for the year		
Items that will not be reclassified to profit or loss:		
Actuarial gain / (loss) on post-employment benefit commitments	68	(184)
Deferred tax on post-employment benefit commitments	49	44
Items that may subsequently be reclassified to profit or loss:		
Currency translation differences	2	57
Other comprehensive income for the year, net of tax	**119**	**(83)**
Total comprehensive income for the year	**4,936**	**581**
Total comprehensive income for the year attributable to:		
Owners of the Parent Company	**4,936**	**581**

The notes on pages 50 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET

As at 31 December Amounts in EUR '000s	Notes	2018	2017
ASSETS			
Non-current assets			
Goodwill	20	4,160	4,160
Intangible assets	21	1,415	1,526
Tangible assets	19	57	54
Interests in associates	16	13	600
Distressed asset portfolios	17	116,143	105,547
Other long-term receivables from investments	18	2,422	5,865
Deferred tax assets	27	1,041	1,403
Other non-current assets	22	106	116
Total non-current assets		**125,357**	**119,271**
Current assets			
Accounts receivable	15	7,280	4,994
Other receivables	15	761	603
Prepaid expenses and accrued income	15	1,274	591
Cash and cash equivalents	14	59,862	58,118
Total current assets		**69,177**	**64,306**
TOTAL ASSETS		**194,534**	**183,577**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	29	11,780	11,780
Share premium	29	21,030	21,030
Other reserves	29	(488)	(540)
Retained earnings including net profit / (loss) for the year		3,528	(1,356)
Total shareholders' equity attributable to Parent Company's shareholders		**35,850**	**30,914**
Long-term liabilities			
Loans	24, 25	133,225	134,166
Post-employment benefit commitments	26	966	913
Deferred tax liabilities	27	307	490
Total long-term liabilities		**134,498**	**135,569**
Current liabilities			
Accounts payable	23	1,400	858
Tax liabilities	23	2,370	814
Accrued interest	23	3,789	3,822
Accrued expenses and deferred income	23	2,627	1,600
Loans	23, 24, 25	14,000	10,000
Total current liabilities		**24,186**	**17,094**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**194,534**	**183,577**

The notes on pages 50 to 71 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December Amounts in EUR '000s	Notes	2018	2017
Cash flow from operating activities			
Operating profit		22,068	13,169
Adjustments for non-cash items:			
Amortization of invested assets	17, 18	*34,828*	*19,164*
Revaluation and impairment of invested assets	17, 18	*2,597*	*(205)*
Other operating income	32	*(1,967)*	–
Depreciation, amortization and impairment of tangible and intangible assets	19, 21	*130*	*143*
Other items not affecting cash		*(256)*	*(2,653)*
Interest paid		(13,652)	(7,947)
Interest received		–	6
Tax paid		(63)	(38)
Cash flow from operating activities before working capital changes		**43,685**	**21,639**
Working capital adjustments			
(Increase) / decrease in accounts receivable		(2,286)	(2,118)
(Increase) / decrease in other receivables		(1,027)	(892)
Increase / (decrease) in accounts payable		542	(710)
Increase / (decrease) in other current liabilities		1,027	681
Net cash flow from operating activities		**41,941**	**18,600**
Cash flow from investing activities			
Purchases of distressed asset portfolios and other long-term receivables from investments	17, 18	(42,313)	(95,579)
Acquisition of subsidiary, net of cash acquired	32	410	–
Proceeds from divestment of distressed asset portfolios and other long-term receivables from investments	17, 18	–	13,570
Purchases of tangible and intangible assets	19	(22)	(22)
Net cash flow received / (used) in investing activities		**(41,925)**	**(82,031)**
Cash flow from financing activities			
Proceeds from issuance of ordinary shares	29	–	4,240
Share premium	29	–	5,518
Proceeds from issuance of loans	24, 25	12,000	158,212
Repayment of loans	24, 25	(10,000)	(56,645)
Net cash flow received / (used) in financing activities		**2,000**	**111,325**
Cash flow for the year		**2,016**	**47,894**
Cash and cash equivalents less bank overdrafts at beginning of the year		**58,118**	**10,599**
Foreign exchange gains / (losses) on cash and cash equivalents		(272)	(375)
Cash and cash equivalents less bank overdrafts at end of the year	**14**	**59,862**	**58,118**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in EUR '000s	Notes	Share capital	Share premium	Other reserves	Retained earnings incl. net profit / (loss) for the year	Total equity
Balance at 1 January 2017		**7,540**	**15,512**	**(584)**	**(1,893)**	**20,575**
Net profit for the year		–	–	–	664	**664**
Other comprehensive income						
Actuarial loss on post-employment benefit commitments	26	–	–	–	(184)	**(184)**
Currency translation differences		–	–	–	57	**57**
Deferred tax on post-employment benefit commitments	27	–	–	44	–	**44**
Total comprehensive income		–	–	**44**	**537**	**581**
Transactions with owners						
New share issue	29	4,240	5,518	–	–	**9,758**
Total transactions with owners		**4,240**	**5,518**	–	–	**9,758**
Balance at 31 December 2017		**11,780**	**21,030**	**(540)**	**(1,356)**	**30,914**
Balance at 1 January 2018		**11,780**	**21,030**	**(540)**	**(1,356)**	**30,914**
Net profit for the year		–	–	–	4,817	**4,817**
Other comprehensive income						
Actuarial gain on post-employment benefit commitments	26	–	–	–	68	**68**
Currency translation differences		–	–	3	(1)	**2**
Deferred tax on post-employment benefit commitments	27	–	–	49	–	**49**
Total comprehensive income		–	–	**52**	**4,884**	**4,936**
Transactions with owners						
Total transactions with owners		–	–	–	–	–
Balance at 31 December 2018		**11,780**	**21,030**	**(488)**	**3,528**	**35,850**

At 31 December 2018 the number of outstanding shares in DDM Holding AG amounted to 13,560,447 shares and at 31 December 2017 the number of outstanding shares amounted to 13,560,447 shares.

The notes on pages 50 to 71 are an integral part of these consolidated financial statements.

NOTE 1. GENERAL INFORMATION

DDM Holding AG and its subsidiaries (together "DDM" or the "Company") is an investor in portfolios of distressed assets and other long-term receivables from investments. DDM primarily buys portfolios from international banks with lending operations in Southern, Central and Eastern Europe, and the majority of the assets in which DDM has invested originate in Greece, Croatia, the Czech Republic, Slovenia, Romania, Hungary and Serbia. The Company is based in the canton of Zug in Switzerland where the majority of its staff is located. The address of DDM's registered office is Schochenmühlestrasse 4, 6340 Baar, Switzerland. The Company was founded in 2007 and is listed on Nasdaq First North, Stockholm since September 2014, under the ticker DDM.

These financial statements were authorized for publication by the Board of Directors on 28 March 2019.

NOTE 2. BASIS OF PREPARATION

The consolidated financial statements of DDM Holding AG have been prepared in accordance with IFRS as adopted by the EU. In accordance with Article 962 of the Swiss Code of Obligation (CO), DDM Holding AG has to prepare financial statements in accordance with a recognized financial reporting standard. The Swiss Federal Council has issued an ordinance defining IFRS as approved by the IASB as a recognized financial reporting standard. DDM Holding AG 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 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, other long-term receivables from investments and borrowings are measured at amortized cost using the effective interest rate method, adjusted for revaluation and impairment.

The financial statements have been prepared on a going concern basis.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these consolidated financial statements are as follows:

Consolidation
The financial statements consolidate the accounts of DDM Holding AG and its subsidiaries.

Subsidiaries
Subsidiaries are all entities over which DDM Holding AG has control. DDM Holding AG controls an entity when it 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 and are de-consolidated from the date on which control ceases. Intercompany transactions, balances, and unrealized gains on transactions between group companies are eliminated.

Entities included in the scope of consolidation	Consolidation method	Domicile	31 Dec 2018	31 Dec 2017
DDM Group AG	Fully consolidated	Switzerland	100%	100%
DDM Invest I AG	Fully consolidated	Switzerland	100%	100%
DDM Invest II AG	Fully consolidated	Switzerland	100%	100%
DDM Invest III AG	Fully consolidated	Switzerland	100%	100%
DDM Invest IV AG	Fully consolidated	Switzerland	100%	100%
DDM Invest VII AG	Fully consolidated	Switzerland	100%	100%
DDM Invest X AG	Fully consolidated	Switzerland	100%	100%
DDM Invest XX AG	Fully consolidated	Switzerland	100%	100%
DDM Treasury Sweden AB	Fully consolidated	Sweden	100%	100%
DDM Finance AB	Fully consolidated	Sweden	100%	100%
DDM Debt AB	Fully consolidated	Sweden	100%	100%
DDM Facility Finance AB	Fully consolidated	Sweden	100%	–
DDM Facility Debt AB	Fully consolidated	Sweden	100%	–
DDM Invest V d.o.o.	Fully consolidated	Slovenia	100%	–
DDM Invest VII d.o.o	Fully consolidated	Slovenia	100%	100%
DDM Debt Management d.o.o Beograd	Fully consolidated	Serbia	100%	100%
DDM Debt Romania S.R.L	Fully consolidated	Romania	100%	–
Finalp Zrt.	Fully consolidated	Hungary	100%	–

Associates
Associates are all entities over which DDM Holding AG has significant influence but do not control or jointly control. This is generally the case where the group holds between 20% and 50% of the voting rights. Interests in associates are accounted for using the equity method. The carrying amount (including goodwill) of equity accounted investments is tested for impairment in accordance with the policy described in note 3.

Entities not included in the scope of consolidation	Consolidation method	Domicile	31 Dec 2018	31 Dec 2017
Profinance doo Beograd	Equity accounted	Serbia	–	49.67%
CE Partner S.a.r.l.	Equity accounted	Luxembourg	50.00%	–
CE Holding Invest S.C.S	Equity accounted	Luxembourg	49.99%	–

Foreign currency translation
(i) Functional and presentation currency
Items included in the financial statements of each consolidated entity in DDM Holding AG are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The functional currency of DDM Holding AG is Euro ("EUR"). The consolidated financial statements are presented in thousands of Euros, ("EUR k"), unless stated otherwise, which is the Group's presentation currency. Rounding differences may occur. The financial statements of entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows: assets and liabilities at the closing rate on the balance sheet date, equity at historical rates and income and expenses at the average rate for the period (as this is considered a reasonable approximation of the actual rates prevailing on the dates of the individual transactions). All resulting consolidation adjustments are recognized in other comprehensive income as cumulative translation adjustments. All of the entities in the DDM group have EUR as their functional currency except for DDM Debt Management doo Beograd which has Serbian Dinar (RSD) as its functional currency, DDM Debt Romania S.R.L, which has Romanian leu (RON) as its functional currency and Finalp Zrt which has Hungarian forint (HUF) as its functional currency.

(ii) Transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the transaction dates. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entities' functional currency will give rise to realised and unrealised exchange rates differences that are recognized in the income statement in "net financial expenses".

The following exchange rates were applied at the balance sheet dates (spot rates) and for the income statement (average rates):

Exchange rates		31 Dec 2018	31 Dec 2017
Balance sheet	EUR/CHF	1.1269	1.1702
Income statement	EUR/CHF	1.1580	1.1025
Balance sheet	EUR/CZK	25.724	25.535
Income statement	EUR/CZK	25.625	26.433
Balance sheet	EUR/HRK	7.4125	7.4400
Income statement	EUR/HRK	7.4290	7.4635
Balance sheet	EUR/HUF	321.03	310.37
Income statement	EUR/HUF	317.92	309.22
Balance sheet	EUR/RON	4.6635	4.6585
Income statement	EUR/RON	4.6529	4.5587
Balance sheet	EUR/RSD	118.175	118.29
Income statement	EUR/RSD	118.312	121.37
Balance sheet	EUR/SEK	10.2548	9.8438
Income statement	EUR/SEK	10.2259	9.6167

Cash and cash equivalents
Cash and cash equivalents include cash deposits held with banks and other short-term highly liquid investments with original maturities of three months or less. Overdrafts are disclosed separately under liabilities and presented as "Liabilities to credit institutions". Please see note 14.

Financial instruments
IFRS 9 "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, and new impairment model for financial assets. The Group has adopted IFRS 9 "Financial instruments" as of the date of initial application, 1 January 2018. This has not resulted in any restatement of prior period comparatives and no transitional adjustments to equity, as financial instruments held by DDM continue to be measured at amortized cost using the effective interest rate method ("EIR"). IFRS 9 replaced IAS 39 "Financial Instruments: recognition and measurement" that was applicable for the prior year ended 31 December 2017.

(i) Changes in accounting policies
The classification and measurement requirements regulations under IFRS 9 "Financial Instruments" have been adopted by the Group as of the date of initial application, 1 January 2018. Distressed asset portfolios, other long-term receivables, accounts receivables and other receivables from investments are financial instruments that are accounted for under IFRS 9 and continue to be measured at amortized cost using the EIR method.

The Group's investments consist of portfolios of non-performing loans and debt, under IFRS 9 these portfolios are defined as purchase or originated credit-impaired (POCI), as these portfolios are purchased at prices significantly below the nominal amount of the receivables and therefore impairments are already included at the point of initial recognition.

IFRS 9 replaces the 'incurred loss' impairment model in IAS 39 with a forward-looking 'expected credit loss' ("ECL") model. The new impairment model will apply to financial assets classified at amortised cost. The impairment methodology to be applied depends on whether there has been a significant increase in credit risk and involves a three-stage approach whereby financial assets move through the three stages as their credit quality changes.

Under IFRS 9 with regard to financial assets held at amortised cost that are considered to have low credit risk, the relevant impairment provision that has been applied is to recognize a 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination or the Company acquires POCI portfolio the allowance will be based on the lifetime ECL.

Loans, accounts payable and other payables are financial liabilities that are accounted for under IFRS 9 and continue to be measured at amortized cost using the EIR method.

(ii) Application of changes in accounting policies
The DDM Group's business model is to invest in distressed assets and collect the contractual cash flows. The invested assets only consist of cash flows payments of principal and interest (solely payments of principal and interest, "SPPI"). In exceptional cases, portfolios might be sold.

The changes to classification and measurement of financial instruments under IAS 39 to IFRS 9 have not had an impact on the recognition and valuation of the invested assets, as these continue to be valued at amortized cost.

The table below shows a comparison of the measurement of DDM's financial instruments according to IAS 39 and IFRS 9:

	Valuation under IAS 39	Valuation under IFRS 9
Assets		
Account receivables	Amortised cost	Amortised cost
Other receivables	Amortised cost	Amortised cost
Distressed asset portfolios	Amortised cost	Amortised cost
Other long-term receivables from investments	Amortised cost	Amortised cost
Liabilities		
Accounts payable	Amortised cost	Amortised cost
Other payables	Amortised cost	Amortised cost
Short-term loans	Amortised cost	Amortised cost
Long-term loans	Amortised cost	Amortised cost

In line with IFRS 9 "Financial Instruments" financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has, for all intents and purposes, transferred all of the risks and rewards of ownership. Financial liabilities are derecognized when the contractual commitment is discharged, cancelled or expires.

Classification, recognition and measurement
At initial recognition, the Company classifies its financial instruments as follows:

Financial assets carried at amortized cost
Financial assets carried at amortized cost are non-derivative financial assets, with fixed or determinable payments that are not quoted in an active market. The Company's financial assets carried at amortized cost comprise distressed asset portfolios, other long-term receivables from investments, receivables and cash and cash equivalents. Financial assets carried at amortized cost are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount 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.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

Impairment of financial assets
The impairment regulations contained in IFRS 9, which have been applied from 1 January 2018, are based on the expected credit loss model (ECL model) and supersede the incurred loss model (ICL model) stipulated in IAS 39. The ECL model under IFRS 9 has not had an additional direct impact on DDM's invested assets. Distressed asset portfolios and other long-term receivables from investments are considered credit-impaired under IFRS 9. As such lifetime expected credit losses are included in the recovery of the estimated cash flows when calculating the effective interest rate on initial recognition of such assets. The Company applies the simplified method to apply lifetime expected credit losses to receivables and cash and cash equivalents, which has not had a significant impact on the financials at initial application.

On each reporting date the Company assesses on a forward looking basis the expected credit losses associated with its collection estimates for financial assets held at amortised cost. A change in the estimated cashflows would result in a revaluation and/or impairment of the invested asset. The assessment applied depends on whether has been a change in credit risk determined by the following factors:

a) level of financial difficulty of the obligor;
b) delinquencies in interest or principal payments; and
c) it is likely that the borrower will enter bankruptcy or other financial reorganization.

Distressed asset portfolios and other long-term receivables from investments
DDM invests in distressed asset portfolios, where the receivables are directly against the debtor, and in other long-term receivables from investments, where the receivables are against the local legal entities holding the portfolios of loans.

Other long-term receivables from investments
DDM owns 100% of the shares in the local legal entities holding the leasing portfolios. However, for each investment there is a co-investor holding a majority stake in the leasing portfolio, and therefore DDM does not control the investment as the co-investor has significant rights which if exercised could block decisions related to relevant activities to collect the portfolios. The economic substance of the investments are the underlying portfolios of loans. As a result, the underlying assets which represent other long-term receivables from investments are recognized in proportion to DDM's share of the rights to the leasing portfolio in the financial statements. The receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, adjusted for revaluation and impairment. The fair value of 100% of the equity is immaterial, and therefore equity accounting is not carried out.

Distressed asset portfolios and other long-term receivables from investments
Distressed asset portfolios and other long-term receivables from investments are purchased at prices significantly below the nominal amount of the receivables. The Company determines the carrying value by calculating the present value of estimated future cash flows of each investment using its effective interest rate at initial recognition by DDM. The original effective interest rate is determined on the date the portfolio / receivable was acquired based on the relationship between the purchase price of the portfolio / receivable and the projected future cash flows as per the acquisition date. Changes in the carrying value of the portfolios / receivables include interest income on invested assets before revaluation and impairment for the period, as well as changes to the estimated projected future cash flows, and are recognized in the income statement under "Revenue on invested assets".

If the fair value of the investment at the acquisition date exceeds the purchase price for a distressed asset portfolio not acquired as part of a business combination, 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). Please see note 5 for further information.

Cash flow projections are made at the portfolio / receivable level since each portfolio / receivable consists of a large number of homogeneous amounts of receivables. Assumptions must be made at each reporting date as to the expected timing and amount of future cash flows. Cash flows include the nominal amount, reminder fees, collection fees and late interest that are expected to be received from debtors less forecasted collection costs. These projections are updated at each reporting date based on actual collection information, planned collection actions as well as macroeconomic scenarios and the specific features of the assets concerned. 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 a significant change in the credit risk estimated in relation to the amount of future cash flows of the portfolio / receivable and can be estimated reliably. This is recorded within the line "Impairment of 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”.

If the Company sells a portfolio / receivable for a higher or lower amount than its carrying value, the resulting gain or loss on disposal is recognized in the consolidated income statement.

Tangible assets
Tangible assets are stated at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset as appropriate only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably. Repairs and maintenance costs are charged to the Income Statement during the period in which they are incurred.

The major categories of tangible assets are depreciated on a straight-line basis as follows:

Furniture	5 years
Computer hardware	5 years

The Company distributes the amount initially recognized for a tangible asset between its significant components and depreciates each component separately. The carrying amount for a replaced component is derecognized when replaced. The residual value method of amortization and the useful lives of the assets are reviewed annually and adjusted if appropriate. Impairment and gains and losses recognized in connection with disposals of tangible assets are included among administration expenses (within the line “other operating expenses”).

Intangible assets
(i) Identifiable intangible assets
The Company’s identifiable intangible assets are stated at cost less accumulated amortization and include the “FUSION” computer software that was developed in-house in cooperation with external IT consultancy firms, and that has a finite useful life. “FUSION” is the proprietary IT system that integrates investment data, case data, payment data and activity data into one effective and comprehensive IT system. This asset is capitalized and amortized in the income statement on a straight-line basis over its expected useful life of 20 years.

(ii) Goodwill
On the date of acquisition, the assets and liabilities of acquired subsidiaries or businesses are valued at fair value and in accordance with uniform group policies. The excess of the acquisition price over the revalued net assets of the acquired subsidiaries, businesses or parts of the business is recognized as goodwill in the balance sheet.

Business combinations
The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

a) fair values of the assets transferred;
b) liabilities incurred to the former owners of the acquired business;
c) equity interests issued by the group;
d) fair value of any asset or liability resulting from a contingent consideration arrangement; and
e) fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Company recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest’s proportionate share of the acquired entity’s net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:
a) consideration transferred;
b) amount of any non-controlling interest in the acquired entity; and
c) acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase within the line “other operating income”.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Impairment of non-financial assets
Goodwill is reviewed for impairment annually or at any time if an indication of impairment exists. Management monitors goodwill for internal purposes based on its Cash Generating Units (“CGU”) which are its operating segment.

The Company evaluates impairment losses other than goodwill impairment for potential reversals when events or circumstances warrant such consideration. Accordingly, goodwill is assessed for impairment together with the assets and liabilities of the related segment. The Company has only one CGU, which corresponds to the activities of the entire Group.

Tangible and intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units or “CGUs”).

The recoverable amount is an asset’s fair value less costs to sell or its value in use (being the present value of the expected future cash flows of the relevant asset or CGU as determined by management), whichever is higher.

Post-employment benefit commitments
DDM employees located in Switzerland have entitlements under the Company’s pension plans which are defined benefit pension plans. For defined benefit plans, the level of benefit provided is based on the length of service and the earnings of the individual concerned.

The cost of defined benefit plans is determined using the projected unit credit method. The related post-employment benefit commitment recognized in the balance sheet is the present value of the defined benefit commitment at the end of the reporting period less the fair value of plan assets. Actuarial valuations for defined benefit plans are carried out annually. The discount rate applied in arriving at the present value of the defined benefit commitment represents the yield on high quality corporate bonds denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related defined benefit commitment.

Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income without recycling to the income statement in subsequent periods. Amounts recognized in other comprehensive income are recognized immediately in retained earnings. Current service cost, the recognized element of any past service cost and the interest expense arising on the post-employment benefit commitment are included in the “Personnel expenses” item in the income statement as the related compensation cost. Past service costs are recognized immediately to the extent the benefits are vested and are otherwise amortized on a straight-line basis over the average period until the benefits become vested.

Provisions
(i) Termination benefits
The Company recognizes termination benefits when it is demonstrably committed to either terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal or providing benefits as a result of an offer made to encourage voluntary termination. Benefits falling due more than twelve months after the end of the reporting period are discounted to their present value.

(ii) Other liabilities
Provisions for restructuring costs, warranties and legal claims are recognized in other liabilities when the Company has a present legal or constructive commitment as a result of past events; it is more likely than not that an outflow of resources will be required to settle the commitment; and the amount can be reliably estimated.

Provisions are measured at management’s best estimate of the expenditure required to settle the commitment at the end of the reporting period and are discounted where the effect is material.

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 Company 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.

Current and deferred income tax
Income tax comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in other comprehensive income or directly in equity in which case the income tax is also recognized directly in other comprehensive income or equity respectively.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. In general deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted as per the balance sheet date and are expected to apply when the deferred tax asset is realized or the liability is settled. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax assets and liabilities are presented as non-current.

Revenue on invested assets and revenue from management fees
IFRS 15 “Revenue from Contracts with Customers” establishes a comprehensive framework for determining whether, how much and when revenue is recognised and replaces IAS 18 ‘Revenue’ and related interpretations. The new standard establishes a five-step model to identify and account for revenue streams arising from contracts with customers. The Company has applied this standard from the date of initial application, 1 January 2018 and has not restated comparative information, as there has been no impact on the Company’s revenue recognition policy and to retained earnings from adopting this standard.

Revenue on invested assets is the result of the application of the amortized cost method (please see note 5 and note 6). Revenue from management fees relates to revenue received from co-investors where DDM manages the operations of the invested assets, but does not own 100% of the portfolio. In accordance with IFRS 15, revenue is recognized only when it is probable that future economic benefits will flow to the entity and these benefits can be measured reliably. The revenues recognized from management fees are based on the service obligations specified in the contracts that are delivered over a period, since the benefit to the client is continually transferred with the provision of the service. Accordingly, the revenues obtained from management fees are recognised over the period the service is provided and ensured there is no uncertainty, no significant cancellation of the revenues will occur. The revenues are to be allocated based on the individual service obligations, for Hungary these fees are calculated based on the performance of the corresponding portfolio, and for Greece these fees are calculated based on the time spent on portfolio management. The fees from Hungary are received on a monthly basis in arrears and from Greece are received on a quarterly basis in arrears.

Share capital
Incremental costs directly attributable to the issuance of shares are recognized as a deduction from equity.

Dividend distribution
Dividends on common shares are recognized in the Company’s financial statements in the period in which the dividends are approved by the Board of Directors.

Earnings per share
Basic earnings per share are computed by dividing the profit / (loss) attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are computed by dividing the adjusted profit / (loss) attributable to the equity holders of the Parent Company by the weighted average number of ordinary shares outstanding during the period, adjusted to include any potential dilutive effects.

Accounting standards and amendments issued and adopted in 2018
The group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

(i) IFRS 15 Revenue from contracts with customers
The IASB issued a new standard for the recognition of revenue which replaced IAS 18 which covered contracts for goods and services and IAS 11 which covered 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.

There is no material impact on DDM’s financial statements, as revenue on invested assets is the result of the application of the amortized cost method. IFRS 15 is applicable to revenue from management fees, however there is no material impact as revenue is already recognized based on the satisfaction of performance obligations. Please see notes 6 and 7.
Effective date: 1 January 2018.

(ii) IFRS 9 “Financial instruments”
IFRS 9 addressed the classification, measurement and de-recognition of financial assets and financial liabilities and a new impairment model for financial assets. It replaced the guidance in IAS 39 that related to the classification and measurement of financial instruments. IFRS 9 retained but simplified the mixed measurement model and established three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income and fair value through the income statement.

A new expected credit loss (ECL) model replaced 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.

IFRS 9 did not result in any significant impact on the financial assets liabilities for the DDM Group.

Accounting standards and amendments not yet adopted in 2018
A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018 and have not been applied in preparing these consolidated financial statements.

(i) 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.

Based on the volume of in-force non-cancellable operating leases as of 31 December 2018, DDM expects the impact of IFRS 16 on the balance sheet to result in the recognition of a right-of-use asset and a corresponding lease liability of less than EUR 1 million. No material impact is expected in the consolidated income statement.
Effective date: 1 January 2019.

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

NOTE 4. FINANCIAL RISK MANAGEMENT

Risk management is handled by employees and the Executive Management Committee who report to the Board on the basis of the policy adopted by the Board. The Company identifies, evaluates and mitigates financial risks relating to the operating activities of the Company. 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 rate risk, credit risk, liquidity risk, invested assets risk and financing risk. The Company reports to the Board on compliance with and status of the risk policy in terms of the different financial risks.

The Company 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.

The following summary offers examples of risk factors which are considered to be especially important for the Company’s future development, but is by no means comprehensive.

(i) Economic fluctuations
The debt collection industry is negatively affected by a weakened economy. However, the Company’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.

(ii) Changes in regulations
With regard to risks associated with changes in regulations in its markets, the Company continuously monitors the regulatory efforts to be able to indicate potentially negative effects and to work for favorable regulatory changes. Changes to the regulatory or political environments in which the DDM Group operates, a failure to comply with applicable laws, regulations, licenses and codes of practice or failure of any employees to comply with internal policies and procedures may negatively affect the DDM Group’s business.

NOTE 4. *FINANCIAL RISK MANAGEMENT… continued*

(iii) Market risks
Market risks consist of risks related to changes in exchange rates and interest rate levels. The Company's financing and financial risks are managed 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 to the headquarters in Switzerland to achieve efficiencies when pricing financial transactions.

(a) Foreign exchange risk
DDM is an international group with operations in several countries. DDM's reporting currency is euro. This exposes the Group to foreign exchange risk due to fluctuations in foreign exchange rates that may impact DDM's results and equity. Exposure to currency fluctuations is usually specified according to two main categories: transaction exposure and translation exposure.

a) i) Transaction exposure
In terms of currency risk, in each country where the Company invests, revenues and most collection costs are denominated in local currencies. DDM does not use any hedging instruments. As part of cash management DDM is striving to maintain the required amount of cash in the different local currencies.

a) ii) Translation exposure
When the balance sheet positions of subsidiaries denominated in foreign currencies are recalculated to DDM's presentational currency in euro, a translation exposure arises that affects investor value.

(b) Interest rate risk
Interest rate risks relate primarily to the Company's interest-bearing debt, which consists of long-term senior secured bonds, the revolving credit facility and senior secured notes. Borrowings issued at fixed rates expose DDM to fair value interest rate risk.

(iv) Liquidity risk
The Company has deposited its liquid assets with established financial institutions where the risk of loss is considered remote. The Company's cash and cash equivalents consist solely of bank balances. The Company 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.

(v) Credit risks inherent of distressed assets
To minimize the risks in this business, caution is exercised in investment decisions. Invested assets are usually purchased at prices significantly below the nominal value of the receivables and DDM retains the entire amount it collects, including interest and fees, after deducting costs directly relating to debt collection.

The Company places return requirements on acquired invested assets. Before every acquisition, a careful assessment is made based on a projection of future cash flows (collected amounts) from the invested asset.

In its calculations, the Company is aided by its long experience in collection management and its scoring models. Scoring entails the individual consumer's payment capacity being assessed with the aid of statistical analysis as well as suggesting the actions needed to achieve optimal returns. The Company 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, the Company works in cooperation with other institutions. Risks are further diversified by acquiring distressed assets from clients in different countries.

(vi) Other 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 on a group basis and arises from cash and cash equivalents, and deposits with banks and financial institutions.

A second source of credit risk arises in connection to funds collected during the ordinary course of business. Funds are either collected directly on DDM's bank accounts, or are paid in to client fund accounts held by the respective debt collection agencies to separate DDM's funds from the general funds of the agency. In the second instance, twice per month there is a reconciliation-process, and based on this received and allocated funds are transferred from the client fund accounts. Should a debt collection agency become insolvent between such reconciliation events monies collected and not yet reconciled could be frozen on the account pending the outcome of the insolvency. In selecting debt collection partners DDM makes efforts to control and monitor the financial standing of its partners and also to maintain a balance of the work allocated between agencies to minimize the potential risk of such a situation. Amounts expected to be recovered from a solvent counterparty are recognized as accounts receivable in the balance sheet.

(vii) Financing risk
DDM's borrowings contain a number of financial covenants, including limits on certain financial indicators. The Company's management carefully monitors these key financial indicators so that it can quickly take measures if there is a risk that one or more limits may be exceeded.

(viii) Capital management
The Company's objectives when managing its capital structure is to safeguard the Group's ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

NOTE 5. CRITICAL ESTIMATES AND ASSUMPTIONS IN APPLYING THE COMPANY'S ACCOUNTING PRINCIPLES

The Company 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 below.

Revenue recognition and measurement of acquired portfolios and other long-term receivables from investments
Distressed asset portfolios and other long-term receivables from investments are financial instruments that are accounted for under IFRS 9 and are measured at amortized cost using the effective interest rate method ("EIR"). The effective interest rate method is a method of calculating the amortized cost of a distressed asset portfolio/receivable and of allocating interest income over the expressed life of the portfolio/receivable; the allocated interest income is recorded within revenue on invested assets, in the financial statements. The EIR is the rate that discounts estimated future purchased portfolio cash receipts through the expected life of the purchased portfolio/receivable. 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). If the acquisition is settled on a net basis this results in an impact to the "other items not affecting cash" line in the cash flow statement, as the economic benefit is offset against the cash purchase price.

Upward revaluations are recognized as revenue. Subsequent reversals of such upward revaluations are recorded in the revenue line.

The portfolio / receivables are assessed on a forward looking basis for the expected credit losses associated with its collection estimates for financial assets held at amortised cost in accordance with IFRS 9. An expected credit loss for a portfolio / receivable is recognised if there is a significant change in the credit risk estimated in relation to the amount of future cash flows of the portfolio / receivable and can be estimated reliably, 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/receivable and are based on the collection history with respect to portfolios/receivables comprising similar attributes and characteristics such as date of purchase, original credit grantor, type of receivable, customer payment histories and customer location. Revaluations of portfolios/receivables 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 the distressed asset portfolios and other long-term receivables from investments at a point in time.

The Company estimates that a continuous decrease of net collections by 10% would result in a 10% decrease of the net present value, or carrying value, assuming that the forecasted collection curves 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 notes 17 and 18 for the carrying value of distressed asset portfolios and other long-term receivables from investments.

NOTE 5. *CRITICAL ESTIMATES AND ASSUMPTIONS IN APPLYING THE COMPANY'S ACCOUNTING PRINCIPLES…continued*

Goodwill impairment

As also indicated in note 20, impairment testing of goodwill is performed annually or more frequently if there are indications that goodwill might be impaired. The goodwill was generated in relation to the acquisition of 50% of DDM Group AG in the year 2012. The Company considers that it has only one CGU which the goodwill relates to. Impairment testing is based on key assumptions about the future, although the actual outcome may of course diverge from these assumptions.

Useful lifetimes of intangible assets

Group management establishes assessed useful lifetimes and thus consistent amortization for the Group's intangible assets, which include the "FUSION" computer software that was developed in-house in cooperation with external IT consultancy firms, and that has a finite useful life. Useful lifetimes and estimated residual values are tested on each balance sheet date and adjusted when necessary. See note 21 for recognized values at each balance sheet date for intangible assets.

Assessment of deferred tax assets

Deferred tax assets for tax losses carried forward or other future tax deductions are recognized to the extent that it is deemed likely that the deduction can be made against future taxable surpluses. Carrying amounts for deferred tax assets on each balance sheet date are provided in note 27.

NOTE 6. RECONCILIATION OF REVENUE ON INVESTED ASSETS AND REVENUE FROM MANAGEMENT FEES

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

Net collections is comprised of gross collections from the invested assets held by DDM, less commission and collection fees. 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 consolidated income statement 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 consolidated income statement 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 and other long-term receivables from investments, 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.

For the year ended 31 December EUR '000s	2018	2017
Net collections	65,669	37,434
Amortization of invested assets	(34,828)	(19,164)
Interest income on invested assets before revaluation and impairment	**30,841**	**18,270**
Revaluation of invested assets	(152)	808
Impairment of invested assets	(2,445)	(603)
Revenue on invested assets	**28,244**	**18,475**

For the year ended 31 December EUR '000s	2018	2017
Revenue from management fees	1,233	1,876

NOTE 7. SEGMENT INFORMATION

The Company represents a single reportable segment, which consists of one operating segment. The operational and investing activities of the Company are not divided according to geographical regions. The relevant reporting to allocate resources and assess the performance of the Company received on a regular basis by the Chief Operating Decision Maker ("CODM") is based on information consistent with the IFRS reporting. The CODM is considered to be the Board of Directors collectively. Collection information is available for each portfolio and country where the Company acquired the invested assets.

The table below presents an overview of revenue on invested assets and revenue from management fees by country.

For the year ended 31 December EUR '000s		2018	2017
Bosnia	Revenue on invested assets	(152)	-
Croatia	Revenue on invested assets	2,917	2,436
Czech Republic	Revenue on invested assets	4,476	2,797
Greece	Revenue on invested assets	11,876	3,215
Greece	Revenue from management fees	420	300
Hungary	Revenue on invested assets	1,872	2,796
Hungary	Revenue from management fees	808	1,569
Romania	Revenue on invested assets	2,013	2,766
Romania	Revenue from management fees	5	7
Russia	Revenue on invested assets	(12)	(632)
Serbia	Revenue on invested assets	397	32
Slovakia	Revenue on invested assets	(80)	139
Slovenia	Revenue on invested assets	4,937	4,926
Total revenue on invested assets and revenue from management fees		**29'477**	**20,351**

The table below presents an overview of impairment of invested assets by country:

For the year ended 31 December EUR '000s		2018	2017
Croatia	Impairment of invested assets	1,788	-
Slovenia	Impairment of invested assets	664	-
Russia	Impairment of invested assets	(7)	603
Total impairment of invested assets		**2,445**	**603**

No individual debtor generates more than 10% of the Group's total revenues.

NOTE 7. SEGMENT INFORMATION…*continued*

The table below presents an overview of the carrying value of invested assets (distressed asset porfolios and other long-term receivables from investments) by country:

EUR '000s	31 December 2018	31 December 2017
Greece	35,626	37,712
Croatia	33,760	27,368
Slovenia	22,085	11,346
Czech Republic	14,879	19,595
Hungary	4,623	5,865
Romania	4,399	6,459
Serbia	2,116	2,417
Bosnia	834	–
Russia	195	329
Slovakia	48	321
Total invested assets	**118,565**	**111,412**

NOTE 8. PERSONNEL EXPENSES

For the year ended 31 December EUR '000s	2018	2017
Salary	4,052	2,799
Social security expenses	644	311
Expenses related to post-employment benefit commitments	120	312
Total personnel expenses	**4,816**	**3,422**

Compensation (including personnel and consulting expenses) for the Executive Management Committee can be found in the following table:

For the year ended 31 December EUR '000s	2018	2017
Salary	2,161	1,135
Social security expenses	252	115
Expenses related to post-employment benefit commitments	165	37
Total personnel expenses	**2,578**	**1,287**

Compensation (including personnel and consulting expenses) for the Board of Directors amounted to EUR 683k in 2018 (EUR 828k in 2017). Compensation for the Executive Management Committee amounted to EUR 2,578k in 2018 (EUR 1,287k in 2017). For further details on the Board of Directors' and Executive Management Committee's compensation please refer to the compensation report on pages 37 to 40.

At the end of 2018, DDM employed 33 people (2017: 25), of which 10 employees relate to Finalp Zrt. that was acquired during the year. All of our staff are permanently employed. The gender distribution in 2018 was 45% male, 55% female (2017: 64% male, 36% female). The average age of DDM employees is 38 years (2017: 37). The age distribution of employees is shown below:

For the year ended 31 December	2018	2017
Up to 30 years	9%	24%
30 – 40 years	51%	44%
41 – 50 years	34%	28%
51 – 60 years	6%	4%
60+ years	–	–

NOTE 9. CONSULTING EXPENSES

The Company uses third party suppliers for various services such as auditing and legal services. Consulting services are also used when the Company enters new markets and expert advice is needed. The Company's shareholders have elected PwC as its external auditors in Switzerland and Sweden.

For the year ended 31 December EUR '000s	2018	2017
Consultancy / Service fees	1,325	1,066
Tax and legal services	750	1,074
Audit fees	368	241
Total consulting expenses	**2,443**	**2,381**

NOTE 10. OTHER OPERATING EXPENSES

Other operating expenses are expenditures that the Company incurs as a result of performing its normal business operations.

For the year ended 31 December EUR '000s	2018	2017
Non-deductible VAT	526	353
Administrative expenses	361	187
Business travel expenses	312	321
IT expenses	304	210
Recruitment expenses	213	–
Rental expenses	207	160
Other operating expenses	64	5
Total other operating expenses	**1,987**	**1,236**

NOTE 11. NET FINANCIAL EXPENSES

For the year ended 31 December EUR '000s	2018	2017
Interest expense	13,783	8,154
Amortization of transaction costs	1,133	2,582
Impairment of interest in associates	480	–
Unrealized exchange loss / (profit)	402	(594)
Realized exchange loss	261	526
Bank charges	79	38
Other financial expenses	1	–
Call premium SEK 300M senior secured bonds	–	1,242
Total financial expenses	**16,139**	**11,948**

For the year ended 31 December EUR '000s	2018	2017
Total financial expenses	16,139	11,948
Total financial income	–	–
Net financial expenses	**16,139**	**11,948**

The increase in interest expense is explained in the table below and in note 24:

For the year ended 31 December EUR '000s	2018	2017
Interest on senior secured bonds 7% (7 Nov 2018 – 7 Nov 2019)	124	–
Interest on senior secured bonds 8% (11 Dec 2017 – 11 Dec 2020)	4,000	211
Interest on senior secured bonds 9.5% (30 Jan 2017 – 30 Jan 2020)	8,075	6,682
Interest on senior secured bonds 13% (27 June 2013 – 20 Feb 2017)	–	568
Interest on senior secured bonds 13% (15 July 2016 – 20 Feb 2017)	–	62
Interest on other loans	1,106	374
Revolving credit facility	478	257
Total interest expenses	**13,783**	**8,154**

NOTE 12. TAX EXPENSE

For the year ended 31 December EUR '000s	2018	2017
Current tax		
Current tax on profit for the year	(1,117)	(435)
Adjustment in respect of prior years	229	–
Total current tax	**(888)**	**(435)**
Deferred tax		
Origination and reversal of temporary differences	196	(259)
Adjustment in deferred tax assets relating to tax losses carried forward	(420)	137
Total deferred tax	**(224)**	**(122)**
Tax expense in income statement	**(1,112)**	**(557)**

The tax on the Company's profit before tax differs from the theoretical amount that would arise by applying the tax rate for the Swiss domiciled companies (as a significant portion of the group companies are domiciled in Switzerland) to the profit / (loss) of the consolidated entities as follows:

For the year ended 31 December EUR '000s	2018	2017
Profit before tax	5,929	1,221
Tax calculated at 12.2% (Swiss) tax rate (prior year 14.5%)	(723)	(177)
Tax effects of:		
Effect of different tax rates in other countries	15	(12)
Adjustments for tax losses carried forward	(712)	–
Deferred income tax assets recognized relating to tax losses carried forward	375	137
Origination and reversal of temporary differences which are not deductible (taxable)	–	(259)
Adjustments for previous years and other	(67)	(246)
Tax expense in income statement	**(1,112)**	**(557)**

The Group's effective tax rate was 18.8% at 31 December 2018 (45.6% at 31 December 2017). The decrease in the Group's effective tax rate in 2018 is due to a prior year adjustment to the tax rate of certain Swiss companies following changes in international tax regulations. The change in tax rates also results in adjustments to existing temporary differences from previous years.

Based on the performance of the Company, management resolved in 2018 to waive tax losses carried forward in the amount of EUR 712k (2017: nil).

NOTE 13. EARNINGS PER SHARE

Earnings per share are calculated by dividing the net profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year. The Company has no ordinary shares purchased by the Company and held as treasury shares. The Company has no convertible preference shares which may be exchanged for ordinary shares.

For the year ended 31 December EUR '000s	2018	2017
Net profit from continuing operations attributable to owners of the Parent Company	4'817	664
Total	**4,817**	**664**
Weighted average number of ordinary shares	13,560,447	12,408,738
Earnings per share before dilution (EUR)	0.36	0.05
Total potential dilutive shares	–	–
Weighted average number of shares outstanding – fully diluted	13,560,447	12,408,738
Diluted earnings per share (EUR)	0.36	0.05

The Board of Directors proposes that no dividend be paid for the 2018 financial year (2017: nil).

NOTE 14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following for the purpose of the consolidated cash flow statement:

EUR '000s	31 December 2018	31 December 2017
Cash and cash equivalents	59,862	58,118
Total	**59,862**	**58,118**

The Company's cash and cash equivalents includes EUR 181k (2017: nil) of restricted cash payable to third parties following the acquisition of Finalp Zrt.

NOTE 15. CURRENT RECEIVABLES

EUR '000s	31 December 2018	31 December 2017
Accounts receivable	7,280	4,994
Prepaid expenses and accrued income	1,274	591
Other receivables	761	603
Total current receivables	**9,315**	**6,188**

The fair value of current receivables approximates their respective carrying value.

EUR '000s	31 December 2018	31 December 2017
Accounts receivable < 30 days	7,018	4,976
Accounts receivable 31-60 days	239	4
Accounts receivable 61-90 days	1	2
Accounts receivable > 91 days	22	12
Total accounts receivable	**7,280**	**4,994**

Provision of EUR 2k was made for impairment of accounts receivables in 2018 (2017: nil), under the simplified approach permitted under IFRS 9.

Trade and other receivables are presented in the following currencies:

EUR '000s	Currency	31 December 2018	31 December 2017
Accounts receivable	EUR	6,451	2,215
	HUF	504	1,581
	CZK	182	543
	RON	132	170
	RUB	11	21
	HRK	–	464
Total accounts receivable		**7,280**	**4,994**
Other receivables	HRK	285	–
	EUR	255	415
	SEK	163	125
	CHF	58	63
Total other receivables		**761**	**603**
Prepaid expenses and accrued income	EUR	1,090	359
	CHF	117	131
	SEK	59	13
	Other (RUB, USD)	8	2
	HUF	–	86
Total prepaid expenses and accrued income		**1,274**	**591**
Total current receivables		**9,315**	**6,188**

The Group's overall foreign exchange risk is explained in note 28 "Financial Instruments".

NOTE 16. INTERESTS IN ASSOCIATES

Set out below are the associates of DDM as at 31 December 2018 and as at 31 December 2017 which are material to the group. The entities listed below have share capital consisting solely of ordinary shares, which are held directly by the group. The country of incorporation or registration is also their principal place of business, and the proportion of ownership interest is the same as the proportion of voting rights held.

		% of ownership interest		Nature of	Measurement	Carrying amount (EUR'000)	
Name of entity	Domicile	2018	2017	relationship	method	2018	2017
Profinance doo Beograd	Serbia	–	49.67%	Associate	Equity method	–	600
CE Partner S.a.r.l.	Luxembourg	50.00%	–	Associate	Equity method	6	–
CE Holding Invest S.C.S	Luxembourg	49.99%	–	Associate	Equity method	7	–

Impairment of associates
The goodwill within interests in associates was generated in relation to the acquisition of 49.67% of Profinance doo Beograd in the year 2015. Based on the expected future performance of Profinance doo Beograd, management has fully impaired EUR 600k against the carrying amount, of which EUR 480k has been recognised to financial expense in the consolidated income statement during the year ended 31 December 2018, a further EUR 120k had been provided for in 2016.

Summarized financial information for associates
The financial results of Profinance doo Beograd have not been included in the consolidated financial statements of the DDM group as no reliable financial information was available at the date of disclosure of the annual report.

NOTE 17. DISTRESSED ASSET PORTFOLIOS

EUR '000s	31 December 2018	31 December 2017
Opening accumulated acquisition cost	**181,219**	**94,869**
Acquisitions	45,495	99,035
Disposals	–	(13,570)
Revaluation (including forex differences)	(1,736)	885
Closing accumulated acquisition cost	**224,978**	**181,219**
Opening accumulated amortization and impairment	**(75,672)**	**(62,397)**
Amortization for the year (including forex differences)	(30,718)	(12,672)
Impairment	(2,445)	(603)
Closing accumulated amortization and impairment	**(108,835)**	**(75,672)**
Closing net book value	**116,143**	**105,547**

According to the Company's strategic plan, significant investments were made in the Balkans and Czech Republic during 2018 and in Greece, Croatia, the Czech Republic, Serbia and Slovenia during 2017, resulting in a substantial increase to distressed asset portfolios.

The disposal in 2017 relates to the transaction with a new partner in Greece.

Distressed asset portfolios by currency

Currency EUR '000s	31 December 2018	31 December 2017
EUR	70,620	53,427
HRK	24,570	27,368
CZK	14,878	19,595
HUF	2,200	–
RSD	2,116	2,417
RON	1,564	2,411
RUB	195	329
Total	**116,143**	**105,547**

Included within distressed asset portfolios are EUR 0.5M (2017: 1.0M) of real estate assets which have been repossessed as part of the management of secured non-performing loan portfolios. This collateral relating to real estate is considered when determining the recoverability and carrying amount of the portfolio / receivable held at amortised cost. Any collateral received during the life of the portfolio is disposed of on an on-going basis to limit the amount of collateral held.

NOTE 18. OTHER LONG-TERM RECEIVABLES FROM INVESTMENTS

DDM owns 100% of the shares in certain legal entities holding leasing portfolios (see note 3). The fair value of 100% of the equity is immaterial, with the economic substance of the investments being the underlying portfolios of loans. As a result, the underlying assets which represent other long-term receivables from investments are recognized in the financial statements.

EUR '000s	31 December 2018	31 December 2017
Opening accumulated acquisition cost	**22,578**	**22 119**
Reclassification to distressed asset portfolios	(662)	–
Revaluation (including forex differences)	(789)	459
Closing accumulated acquisition cost	**21,127**	**22,578**
Opening accumulated amortization and impairment	**(16,713)**	**(10,672)**
Amortization for the year (including forex differences)	(1,992)	(6,041)
Closing accumulated amortization and impairment	**(18,705)**	**(16,713)**
Closing net book value	**2,422**	**5,865**

NOTE 18. *OTHER LONG-TERM RECEIVABLES…continued*

Other long-term receivables from investments by currency:

Currency EUR '000s	31 December 2018	31 December 2017
HUF	2,422	5,865
Total	**2,422**	**5,865**

NOTE 19. TANGIBLE ASSETS

EUR '000s	Furniture	Computer hardware	Total
Year ended 31 December 2018			
at 1 January 2018	**20**	**34**	**54**
Additions	3	19	22
Disposals	–	–	–
Depreciation	(5)	(14)	(19)
Impairment	–	–	–
at 31 December 2018	**18**	**39**	**57**
At cost	34	227	261
Accumulated depreciation	(16)	(188)	(204)
Net book value at 31 December 2018	**18**	**39**	**57**
Year ended 31 December 2017			
at 1 January 2017	**16**	**47**	**63**
Additions	7	15	22
Disposals	–	–	–
Depreciation	(3)	(28)	(31)
Impairment	–	–	–
at 31 December 2017	**20**	**34**	**54**
At cost	31	208	239
Accumulated depreciation	(11)	(174)	(185)
Net book value at 31 December 2017	**20**	**34**	**54**

NOTE 20. GOODWILL

The Company tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The goodwill was generated in relation to the acquisition of 50% of DDM Group AG in the year 2012. The Company considers that it has only one CGU which the goodwill relates to.

The recoverable amount of this CGU is determined from value in use calculations and no impairment has been identified. Value in use is based on pre-tax cash flow projections based on financial budgets approved by management covering a five-year period, discounted to present value by using a pre-tax, market-determined rate that reflects the current assessment of the time value of money and the risks specific to the asset for which the cash-flow estimates have not been adjusted.

The key assumptions for the value in use calculations are those regarding terminal growth rate, gross collections minus commissions, fees and operating expenses. The expected amounts of gross collections minus commissions and fees are determined based on management's past experience along with external sources of information. The pre-tax rate used to discount the forecast cash flows from this CGU is 15% (prior year 15%). A terminal growth rate of 3% (prior year 3%) has been applied.

In projected net cash flow collections, the recoverable amount calculated based on value in use exceeded the carrying value in 2018 (prior year exceeded the carrying value in 2017). The goodwill impairment assessment is highly sensitive to changes in estimates. An adverse change in projected net cash flows of more than 43% (prior year 2%), or a decrease in the assumed terminal growth rate by more than 6% (prior year 2%), would, all changes taken in isolation, result in an impairment as the recoverable amount would be less than the carrying amount.

At the beginning and end of the financial year the recoverable amount of the CGU was in excess of its book value and therefore management deem it reasonable not to recognize any impairment in the carrying amount for goodwill.

EUR '000s	Goodwill
Year ended 31 December 2018	
at 1 January 2018	**4,160**
Additions	–
Disposals	–
Impairment	–
at 31 December 2018	**4,160**
At cost	4,160
Accumulated impairment	–
Net book value at 31 December 2018	**4,160**
Year ended 31 December 2017	
at 1 January 2017	**4,160**
Additions	–
Disposals	–
Impairment	–
at 31 December 2017	**4,160**
At cost	4,160
Accumulated impairment	–
Net book value at 31 December 2017	**4,160**

NOTE 21. INTANGIBLE ASSETS

EUR '000s	IT software "FUSION"
Year ended 31 December 2018	
at 1 January 2018	**1,526**
Additions	–
Disposals	–
Amortization	(111)
Impairment	–
at 31 December 2018	**1,415**
At cost	2,225
Accumulated amortization	(810)
Net book value at 31 December 2018	**1,415**
Year ended 31 December 2017	
At 1 January 2017	**1,637**
Additions	–
Disposals	–
Amortization	(111)
Impairment	–
at 31 December 2017	**1,526**
At cost	2,225
Accumulated amortization	(699)
Net book value at 31 December 2017	**1,526**

Each significant addition to the FUSION system is amortized in the income statement on a straight-line basis over its expected useful life of 20 years. The average remaining amortization period of the FUSION software at 31 December 2018 is 13 years.

NOTE 22. OTHER NON-CURRENT ASSETS

The majority of the other non-current assets relate to a long-term receivable due from DDM's investment in Lombard, as a result of collections held in the legal entity.

Other non-current assets by currency:

EUR '000s	31 December 2018	31 December 2017
HUF	102	106
EUR	4	4
SEK	–	6
Total	**106**	**116**

NOTE 23. CURRENT LIABILITIES

EUR '000s	Less than 3 months	3 - 12 months	Total
at 31 December 2018			
Accounts payable	1,400	–	**1,400**
Tax liabilities	–	2,370	**2,370**
Accrued interest	3,455	334	**3,789**
Accrued expenses and deferred income	2,535	92	**2,627**
Loans	–	14,000	**14,000**
Total current liabilities	**7,390**	**16,796**	**24,186**
at 31 December 2017			
Accounts payable	858	–	**858**
Tax liabilities	–	814	**814**
Accrued interest	3,454	368	**3,822**
Accrued expenses and deferred income	572	1,028	**1,600**
Loans	–	10,000	**10,000**
Total current liabilities	**4,884**	**12,210**	**17,094**

NOTE 23. CURRENT LIABILITIES…continued

Current liabilities are presented in the following currencies:

EUR '000s	Currency	31 December 2018	31 December 2017
Accounts payable	CHF	722	460
	EUR	585	252
	Other (SEK, HRK, CZK)	83	131
	RON	10	15
Total accounts payable		**1,400**	**858**
Tax liabilities	CHF	1,724	782
	Other (SEK, EUR, RSD)	646	32
Total tax liabilities		**2,370**	**814**
Accrued interest	EUR	3,789	3,822
Total accrued interest		**3,789**	**3,822**
Accrued expenses and deferred income	CHF	1,394	825
	EUR	934	530
	SEK	280	220
	Other (RSD, CZK, RUB)	19	25
Total accrued expenses and deferred income		**2,627**	**1,600**
Loans, including short-term notes	EUR	14,000	10,000
Total loans, including short-term notes		**14,000**	**10,000**
Total current liabilities		**24,186**	**17,094**

NOTE 24. LOANS AND BORROWINGS

EUR '000s	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Between 4 and 5 years	Total
at 31 December 2018						
Senior secured notes	12,000	–	–	–	–	**12,000**
Bond loan, 8%	–	49,006	–	–	–	**49,006**
Bond loan, 9.5%	–	84,219	–	–	–	**84,219**
Loans	2,000	–	–	–	–	**2,000**
Total	**14,000**	**133,225**	–	–	–	**147,225**
at 31 December 2017						
Senior secured notes	10,000	–	–	–	–	**10,000**
Bond loan, 8%	–	–	48,597	–	–	**48,597**
Bond loan, 9.5%	–	–	83,569	–	–	**83,569**
Loans	–	2,000	–	–	–	**2,000**
Total	**10,000**	**2,000**	**132,166**	**–**	**–**	**144,166**

Senior secured notes EUR 12M
On 6 November 2018, the Company refinanced its subsidiary DDM Finance AB ("DDM Finance") EUR 10M senior secured bonds maturing on November 7, 2018 by way of issuing EUR 12M senior secured bonds through DDM Finance. The bonds carry an interest rate of 7% per annum for the first six months and can be prolonged at 8% per annum for another six months.

Senior secured notes EUR 10M
DDM Finance raised EUR 10M in a bridge financing transaction in early November 2017. DDM Finance used the net proceeds from the bridge financing to provide a shareholder loan to DDM Debt, which thereby qualifies as equity under the senior secured bond terms. Under the terms and conditions investors receive a share pledge over the shares of DDM Finance, and any downstream loans to DDM Finance's direct subsidiary are pledged to investors as intercompany loans.

Bond loan EUR 50M
On 11 December 2017, DDM Debt AB (publ) ("DDM Debt") issued EUR 50M of senior secured bonds at 8% within a total framework amount of EUR 160M. The bonds with ISIN number SE0010636746 have a final maturity date of 11 December 2020 and are listed on the Corporate Bond list at Nasdaq Stockholm. The bonds contain a number of financial covenants. Please refer to the "Bond loan EUR 85M" section below for further details. The net proceeds were for acquiring additional debt portfolios.

Revolving credit facility EUR 17M
DDM Debt agreed a super senior revolving credit facility of EUR 17M with a Swedish bank on 28 September 2017. The revolving credit facility was available to finance investments and for general corporate purposes. The facility was for an initial six month term, and was extended for a further six months until 28 September 2018.

Bond loan EUR 85M
EUR 50M of senior secured bonds at 9.5% were issued by DDM Debt on 30 January 2017, within a total framework amount of EUR 85M. The bonds with ISIN number SE0009548332 have a final maturity date of 30 January 2020 and are listed on the Corporate Bond list at Nasdaq Stockholm. The proceeds were used to refinance existing debt within the DDM Group, and the remaining balance of about EUR 10M was used for portfolio acquisitions. In April 2017, DDM Debt successfully completed a EUR 35M tap issue under the EUR 85M senior secured bond framework. The bond tap issue was placed at a price of 101.5%, representing a yield to maturity of c. 9%.

On 17 December 2018, Demeter Finance S.à r.l. announced a public cash offer to acquire all outstanding shares in DDM Holding AG at a price of SEK 40.00 per share, subject to certain completion conditions. The EUR 85M bond loan contains a change of control put option whereupon each bondholder shall have the right to request that its bonds are redeemed at a price per bond equal to 101 per cent of the outstanding nominal amount together with accrued but unpaid Interest.

On 13 February 2019, Demeter Finance S.à r.l. announced that it has solicited interest and agreed with 56% of the bondholders, to waive the change of control put option and consent to certain amendments to the terms and conditions of the bonds, provided DDM Debt requests such a decision by the bondholders in accordance with the terms and conditions.

NOTE 24. LOANS AND BORROWINGS…continued

DDM Debt's financial instruments contain a number of financial covenants, including limits on certain financial indicators. The financial covenants according to the terms and conditions of the senior secured bonds and the revolving credit facility are: an equity ratio of at least 15.00%, net interest bearing debt to cash EBITDA below 4:1, and net interest bearing debt to ERC below 75.00%. DDM's management carefully monitors these key financial indicators, so that it can quickly take measures if there is a risk that one or more limits may be exceeded. Please also refer to the financial statements of DDM Debt AB. DDM Debt AB complied with all bond covenants for the years ending 31 December 2018 and 31 December 2017.

At 31 December 2018 bank accounts totaling EUR 16k were assigned to the bond agent and the bondholders under the terms and conditions of the senior secured bonds (31 December 2017: EUR 48,700k). In addition, DDM Debt AB had a bank guarantee of EUR 5k at 31 December 2018 (31 December 2017: EUR 5k). DDM Debt has pledged the shares in its subsidiaries as security under the terms and conditions. DDM Finance is a guarantor of the bonds. In addition, the investors receive a first ranking share pledge over the shares of DDM Debt and any downstream loans to DDM Debt's subsidiaries are pledged to the investors as intercompany loans. The terms and conditions of DDM Debt's senior secured bonds contain a number of restrictions, including relating to distributions, the nature of the business, financial indebtedness, disposals of assets, dealings with related parties, negative pledges, new market loans, mergers and demergers, local credits and intercompany loans. The terms and conditions are available in their entirety on our website.

Other loans
DDM has an outstanding EUR 2M loan with a maturity date of 1 October 2019.

Bond loan SEK 300M
A bond loan was issued in June 2013, totaling SEK 300M at 13% interest, by DDM Treasury Sweden AB ("DDM Treasury"). The bonds were voluntarily fully redeemed by DDM Treasury on 20 February 2017 in connection with the issuance of the EUR 50M bond loan in January 2017 (see "Bond loan EUR 85M" section above for details). In connection with the redemption the bond holders were paid the applicable call option amount, being 104% of the nominal amount, plus accrued but unpaid interest.

Bond loan EUR 11M
A bond loan totaling EUR 11M was issued by DDM Debt in July 2016. The bond at 13% interest had a maturity date of 15 July 2017 and mandatory repayments during the period. DDM Debt voluntarily fully redeemed the remaining outstanding nominal amount of the bonds of EUR 3.1M plus accrued but unpaid interest on 20 February 2017, in connection with the issuance of the EUR 50M bond loan in January 2017 (see "Bond loan EUR 85M" section above for details).

Please refer to note 28 "Financial Instruments" for disclosures regarding the fair value of the Group's loans and borrowings.

NOTE 25. CASH FLOW AND NET DEBT

The movements in cash and cash equivalents and borrowings during the year were as follows:

Amounts in EUR '000s	Cash and cash equivalents	Current borrowings	Non-current borrowings	Total
Year ended 31 December 2018				
At 1 January 2018	**58,118**	**(10,000)**	**(134,166)**	**(86,048)**
Cash flow	2,016	(2,000)	–	**16**
Amortization of transaction costs (non-cash)	–	–	(1,133)	**(1,133)**
Other non-cash movements	–	(2,000)	2,074	**74**
Exchange movements	(272)	–	–	**(272)**
At 31 December 2018	**59,862**	**(14,000)**	**(133,225)**	**(87,363)**
Year ended 31 December 2017				
At 1 January 2017	**10,599**	**(8,184)**	**(31,192)**	**(28,777)**
Cash flow	47,894	(1,163)	(100,404)	**(53,673)**
Amortization of transaction costs (non-cash)	–	(308)	(2,274)	**(2,582)**
Other non-cash movements	–	(345)	–	**(345)**
Exchange movements	(375)	–	(296)	**(671)**
At 31 December 2017	**58,118**	**(10,000)**	**(134,166)**	**(86,048)**

A reconciliation of cash flow to movement in net debt is shown below:

Amounts in EUR '000s	2018	2017
Increase / (decrease) in cash and cash equivalents	2,016	47,894
Increase in external borrowings	(12,000)	(158,212)
Repayment of external borrowings	10,000	56,645
Change in net debt resulting from cash flows	16	(53,673)
Amortization of transaction costs (non-cash)	(1,133)	(2,582)
Other non-cash movements	74	(345)
Exchange movements	(272)	(671)
Movement in net debt during the year	(1,315)	(57,271)
Opening net debt	**(86,048)**	**(28,777)**
Closing net debt	**(87,363)**	**(86,048)**

NOTE 26. POST-EMPLOYMENT BENEFIT COMMITMENTS

The Company sponsors a pension plan according to the national regulations in Switzerland. The Swiss plan is outsourced to and operated through a collective foundation with an insurance company which is legally independent. The pension plan is funded by employees' and employers' contributions. Swiss pension schemes have certain characteristics of defined benefit plans and the pension plan is therefore regarded as a defined benefit plan in line with IAS 19. The post-employment benefit commitment is measured based on the projected unit credit method.

In 2018, 21 employees and in 2017, 22 employees participated in the defined benefit plans. Employees are insured for death, disability and for retirement benefits. The table below provides where the Company's post-employment benefit amounts and activity are included in the financial statements.

EUR '000s	31 December 2018	31 December 2017
Balance sheet commitments for:		
– Post-employment benefit commitments	(966)	(913)
Income statement charge for:		
– Post-employment benefit commitments	(120)	(312)

The amounts recognized in the balance sheet are determined as follows:

EUR '000s	31 December 2018	31 December 2017
Defined benefit obligation	(1,711)	(1,817)
Fair value of plan assets	745	905
Deficit of funded plans	**(966)**	**(913)**
Post-employment benefit commitments	**(966)**	**(913)**

The movement in the post-employment benefit commitments during the year is as follows:

EUR '000s	Defined benefit obligation	Fair value of plan assets	Total
at 1 January 2018	**(1,817)**	**905**	**(913)**
Current service cost	(198)	–	**(198)**
Past service cost - plan amendments	–	–	–
Interest (expense) / income	(13)	7	**(6)**
	(211)	**7**	**(204)**
Re-measurements:			
– Return on plan assets greater / (less) than the discount rate	–	(24)	**(24)**
– Gain / (loss) from change in financial assumptions	79	–	**79**
– Experience gains / (losses)	13	–	**13**
	92	**(24)**	**68**
Contributions:			
– Employer	–	84	**84**
– Plan participants	(84)	84	–
Payments from plans:			
– Benefit payments	313	(313)	–
Translation differences	(4)	2	**(2)**
at 31 December 2018	**(1,711)**	**745**	**(966)**
at 1 January 2017	**(1,199)**	**725**	**(474)**
Current service cost	(197)	–	**(197)**
Past service cost - plan amendments	(205)	–	**(205)**
Interest (expense) / income	(10)	6	**(4)**
	(412)	**6**	**(406)**
Re-measurements:			
– Return on plan assets greater / (less) than the discount rate	–	44	**44**
– Gain / (loss) from change in financial assumptions	(34)	–	**(34)**
– Experience gains / (losses)	(194)	–	**(194)**
	(228)	**44**	**(184)**
Contributions:			
– Employer	–	95	**95**
– Plan participants	(95)	95	–
Payments from plans:			
– Benefit payments	(12)	12	–
Translation differences	129	(72)	**57**
at 31 December 2017	**(1,817)**	**905**	**(913)**

Methods and Assumptions Used in Sensitivity Analysis
The discount rate sensitivity includes a corresponding change in the interest crediting rate as well as the BVG minimum interest crediting rate assumptions.

The following significant actuarial assumptions were used at 31 December 2018:

		Sensitivity analysis	Effect on DBO, EUR '000s
Discount rate	1.00%	0.25% increase	(77)
Discount rate	1.00%	0.25% decrease	76
Mortality	BVG 2015 Generational tables	Increase of 1 year in expected lifetime of plan participants at age 65	17
Mortality	BVG 2015 Generational tables	Decrease of 1 year in expected lifetime of plan participants at age 65	(16)

NOTE 26. POST-EMPLOYMENT BENEFIT COMMITMENTS... continued

Mortality
The mortality tables are the Swiss BVG 2015 generational mortality tables for males and females.
The expected lifetime of a participant who is aged 65 and the expected lifetime (from age 65) of a participant who will be age 65 in 15 years are shown in years below based on the above mortality tables.

Age	Males	Females
65	22.61	24.65
65 in 15 years	24.03	26.06

Retirement
100% of males retire at age 65. 100% of females retire at age 64.

The significant actuarial assumptions were as follows:

	2018	2017
Discount rate	1.00%	0.75%
Price inflation	1.25%	1.25%
Salary increases	3.25%	3.25%
Future increases in social security	1.50%	1.50%
Assumed pension increases	0.00%	0.00%

Description of pension plan characteristics and associated risks
DDM Group AG meets its commitments under Switzerland's mandatory company-provided second pillar pension system to provide contribution-based cash balance retirement and risk benefits to employees via a contract with a collective foundation. The Company retains overall responsibility for deciding on such fundamental aspects as the level and structure of plan benefits at each contract renewal and remains responsible for providing the benefits to members if the collective foundation contract is cancelled or the collective foundation is unable to meet its commitments.

Companies within the Swiss regulatory environment have substantial freedom to define their pension plan design (e.g. with regards to the salary covered, level of retirement credits, or even overall plan design) provided the benefits are always at least equal to the minimum requirements as defined by the law (second pillar mandatory minimum benefits). Most employers provide higher benefits than those required by law. The minimum level of retirement benefit is expressed by a cash balance formula with age-related contribution rates (or "retirement credits") on an insured salary defined by law and a required interest crediting rate, which is set by the government (1.00% in 2018).

There are a number of guarantees provided within the plan which potentially expose the Company to risks which may require them to provide additional financing (if the collective foundation fails or the Company chooses to discontinue the insurance arrangements). The main risks that they are exposed to include:
- Investment risk: there is a guaranteed return on account balances of at least 0% per annum on the total account balance as well as the rate set by the government (1.00% in 2018) on the mandatory minimum benefits.
- Pensioner longevity and investment risk: the pension plan offers a lifelong pension in lieu of the cash balance lump sum upon retirement. The plan has defined rates for converting the lump sum to a pension and there is the risk that the members live longer than implied by these conversion rates and that the pension assets fail to achieve the investment return implied by these conversion rates.

Determination of economic benefit available
No determination of the economic benefit available has been made since the plan has a funded status deficit.

Description of asset-liability matching strategies
DDM Group AG invests in a collective foundation in which assets are selected to match pension plan liabilities.
DDM Group AG does not have flexibility in the choice of investment.

The expected contributions for the year ending 31 December 2019 are:
1) Employer EUR 100k
2) Plan participants EUR 100k

The weighted average duration of post-employment benefit commitments is 23.9 years.

Maturity profile of post-employment benefit commitments:

Expected benefit payments during the fiscal year ending:	EUR '000s
31 December 2019	63
31 December 2020	70
31 December 2021	76
31 December 2022	82
31 December 2023	86
31 December 2024 through 31 December 2028	480

Analysis of post-employment benefit commitments by participant category:
1) Active participants: EUR 1,711k
2) Deferred participants: EUR 0
3) Pensioners: EUR 0

Plan asset information:

	Allocation percentage 31 December 2018	Allocation percentage 31 December 2017
Equity securities	29.59%	27.04%
Debt securities	32.86%	33.92%
Real estate-property	12.80%	11.61%
Cash and cash equivalents	0.98%	2.17%
Derivatives	0.00%	0.00%
Other	23.77%	25.26%
Total	**100.00%**	**100.0%**

NOTE 27. DEFERRED TAXES

The analysis of deferred tax assets and deferred tax liabilities is as follows:

Deferred tax assets EUR '000s	Loss carried forward	Post-employment benefit	Software amortization	Total
at 1 January 2018	**1,295**	**91**	**16**	**1,403**
(Charged) / credited to the Income statement	(420)	–	10	**(411)**
(Charged) / credited to Other comprehensive income	–	49	–	**49**
at 31 December 2018	**875**	**140**	**26**	**1,041**
at 1 January 2017	**1,233**	**47**	**8**	**1,289**
(Charged) / credited to the Income statement	137	–	8	**145**
(Charged) / credited to Other comprehensive income	–	44	–	**44**
Foreign exchange differences	(75)	–	–	**(75)**
at 31 December 2017	**1,295**	**91**	**16**	**1,403**

Deferred tax liabilities EUR '000s	Goodwill	Invested assets	Software amortization	Total
at 1 January 2018	–	**(490)**	–	**(490)**
(Charged) / credited to the Income statement	–	183	–	**183**
(Charged) / credited to Other comprehensive income	–	–	–	–
Foreign exchange differences	–	–	–	–
at 31 December 2018	–	**(307)**	–	**(307)**
at 1 January 2017	**–**	**(231)**	**–**	**(231)**
(Charged) / credited to the Income statement	–	(259)	–	**(259)**
(Charged) / credited to Other comprehensive income	–	–	–	–
Foreign exchange differences	–	–	–	–
at 31 December 2017	–	**(490)**	–	**(490)**

The Company's deferred tax assets have been recognized in accordance with IAS 12, based on historical performance and future budgets, the Board of Directors believe that it is probable that there will be sufficient taxable profits against which the assets will be reversed. Under Swiss law, net operating losses can be carried forward for a period of up to seven years.

Tax-loss carryforwards for which no deferred tax assets are recognized pertain mainly to Switzerland totalling EUR 9.1M (2017: nil), following management resolving in 2018 to waive tax losses carried forward.

NOTE 28. FINANCIAL INSTRUMENTS

The key risks and uncertainties faced by the Company are managed within an established risk management framework. The Company's day-to-day working capital is funded by its cash and cash equivalents. The key risks identified for the Company are discussed below. The Company has exposure to credit risk, market risk and liquidity risk, which arises throughout the normal course of the Company's business.

Fair values

The Company 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 financial assets carried at amortised cost and recognized at amortized cost according to the effective interest rate method. The Company 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 Company's opinion, the market's yield requirements in the form of effective interest rates on new invested assets have varied dependant on the profile of receivables, underlying collateral and geographical locations of the portfolios acquired. With this valuation method, the carrying value is the best estimate of the fair value of invested assets.

The table below shows the financial assets and financial liabilities where the carrying values are considered to be materially in line with their fair values:

EUR '000s	IFRS 9 category	Fair value category	31 December 2018	31 December 2017
Assets	**Fair value and carrying value of financial instruments**			
Accounts receivable	Financial assets at amortized cost	Level 2	7,280	4,994
Other receivables	Financial assets at amortized cost	Level 2	761	603
Distressed asset portfolios	Financial assets at amortized cost	Level 3	116,143	105,547
Other long-term receivables from investments	Financial assets at amortized cost	Level 3	2,422	5,865
Liabilities	**Fair value and carrying value of financial instruments**			
Accounts payable	Financial liabilities at amortized cost	Level 2	1,400	858
Other payables	Financial liabilities at amortized cost	Level 2	8,786	6,236
Short-term loans (excluding bonds)	Financial liabilities at amortized cost	Level 2	14,000	10,000
Long-term loans (excluding bonds)	Financial liabilities at amortized cost	Level 2	–	2,000

For the Company's short-term and long-term senior secured bonds, the fair value is considered to be materially different to the carrying value, as shown in the table below:

EUR '000s	IFRS 9 category	Fair value category	Fair value	Carrying value
At 31 December 2018				
Bond loan, 8%	Financial liabilities at amortized cost	Level 2	49,490	49,006
Bond loan, 9.5%	Financial liabilities at amortized cost	Level 2	84,158	84,219
At 31 December 2017				
Bond loan, 8%	Financial liabilities at amortized cost	Level 2	50,000	48,597
Bond loan, 9.5%	Financial liabilities at amortized cost	Level 2	87,975	83,569

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). The fair value of the senior secured bonds is calculated based on the bid price for a trade occurring close to the balance sheet date.
- Level 3 – Inputs for the asset or liability that are not based on observable market data (that is unobservable inputs).
  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 5.

Credit risk

Credit risk consists of the risk that counterparties of the Company are unable to meet their commitments. The credit risk is considered upon the acquisition of a financial asset by assessing the expected return. The Company manages this risk by monitoring the performance of the financial asset throughout its economic life. Cash collections are continually monitored, and the carrying value of the asset is impaired where it is deemed that, based on collections profiles, the asset is underperforming compared to the initial expected return determined at the acquisition date. The financial assets subjected to credit risk are cash and cash equivalents, accounts receivable, distressed asset portfolios and other long-term receivables from investments. Depending on the distressed asset portfolio or other long-term receivables from investments, the loans in the portfolio / receivable may contain underlying assets such as cars and houses as collateral for the loans. However it is always the Company's intention to recover the debt if possible, rather than the collateral. This collateral is considered when determining the recoverability and carrying amount of the portfolio / receivable. Any collateral received during the life of the portfolio is disposed of on an on-going basis to limit the amount of collateral held.

The maximum credit exposure for each class of financial assets therefore corresponds to the carrying amount, which is shown in the table below:

EUR '000s	31 December 2018	31 December 2017
Cash and cash equivalents	59,862	58,118
Accounts receivable	7,280	4,994
Distressed asset portfolios	116,143	105,547
Other long-term receivables from investments	2,422	5,865
Total	**185,707**	**174,524**

At 31 December 2018 the majority of the DDM group bank accounts were held with banks with credit ratings ranging from AA- to BB+ as rated by Standard and Poor's. No credit ratings are available for the other financial assets held by DDM.

Liquidity risk / Financing risk
The Company actively monitors its liquidity and cash flow position to ensure that it has sufficient cash and distressed asset portfolio financing in order to fund its activities. The Executive Management Committee monitors cash through bi-weekly reporting, the management accounts and periodic review meetings.

The undiscounted cash flows arising from the Company's loans and borrowings (see note 24) in the form of financial instruments, based on the remaining period to the earliest contractual maturity date as at the balance sheet date, are specified in the table below:

EUR '000s	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years	Over 5 years	Total
At 31 December 2018	27,217	143,038	–	–	–	**170,255**
At 31 December 2017	23,333	14,300	143,038	–	–	**180,670**

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.

Market risk
Market risk is defined as the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk principally comprises currency risk and interest rate risk considered further below.

As the Company has no variable interest-bearing assets or liabilities, its income and operating cash flows are predominantly independent of any changes in market interest rate. For further information, refer to note 24 "Loans and borrowings".

Foreign exchange rate risk
Foreign exchange rate risk is the risk that fluctuations in exchange rates will negatively affect the Company's income statement, balance sheet and/or cash flows. The most important currencies for the Company, other than Euro (EUR), are Swiss franc (CHF), Croatian kuna (HRK), Czech koruna (CZK), Hungarian forint (HUF), Romanian leu (RON), Serbian dinar (RSD), and Russian rouble (RUB).

Foreign exchange rate risk can be divided into transaction exposure and translation exposure. Transaction exposure consists of net operating and financial receipts and disbursements in different currencies. Translation exposure consists of the effects from the translation of the financial reports of foreign subsidiaries into EUR.

Transaction exposure
In each country, the majority of income and collection costs are denominated in local currencies, and thus currency fluctuations have only a limited impact on the Company's operating earnings in local currency. Income and expenses in local currency are thereby hedged in a natural way, which limits transaction exposure. The currency exposure that arises within the operating activities is limited to the extent by which it pertains to international collection operations. DDM is monitoring its currency exposure to be able to take actions if necessary. As part of cash management DDM is striving to maintain the required amount of cash in the different local currencies. The Company does not have a hedging program in place.

Translation exposure
The results and financial position of subsidiaries are reported in the relevant foreign currencies and later translated into EUR for inclusion in the consolidated financial statements. Consequently, fluctuations in the EUR exchange rate against these currencies represent currency translation differences on the translation of foreign operations recognised in other comprehensive income and other reserves in the financial statements.

Foreign exchange exposure table
The table below shows the impact on the income statement when the EUR appreciates or depreciates against the respective foreign currency:

Currency	EUR '000s	31 December 2018 Actual Amount	31 December 2018 10% appreciation	31 December 2018 10% depreciation	31 December 2017 Actual Amount	31 December 2017 10% appreciation	31 December 2017 10% depreciation
CHF	Assets	2,576	(258)	258	1,863	(186)	186
	Liabilities	(5,757)	576	(576)	(3,508)	351	(351)
	Net	**(3,182)**	**318**	**(318)**	**(1,645)**	**165**	**(165)**
CZK	Assets	17,354	(1,735)	1,735	21,566	(2,157)	2,157
	Liabilities	(16)	2	(2)	(37)	4	(4)
	Net	**17,337**	**(1,733)**	**1,733**	**21,529**	**(2,153)**	**2,153**
HRK	Assets	26,921	(2,692)	2,692	28,079	(2,808)	2,808
	Liabilities	(54)	5	(5)	(43)	4	(4)
	Net	**26,867**	**(2,687)**	**2,687**	**28,036**	**(2,804)**	**2,804**
HUF	Assets	7,283	(728)	728	8,426	(843)	843
	Liabilities	–	–	–	–	–	–
	Net	**7,283**	**(728)**	**728**	**8,426**	**(843)**	**843**
RON	Assets	3,583	(359)	359	3,103	(310)	310
	Liabilities	(11)	1	(1)	(15)	2	(2)
	Net	**3,582**	**(358)**	**358**	**3,088**	**(308)**	**308**
RSD	Assets	2,946	(295)	295	2,587	(259)	259
	Liabilities	(18)	2	(2)	(26)	3	(3)
	Net	**2,928**	**(293)**	**293**	**2,561**	**(256)**	**256**
RUB	Assets	354	(35)	35	406	(41)	41
	Liabilities	(7)	1	(1)	–	–	–
	Net	**347**	**(34)**	**34**	**406**	**(41)**	**41**
SEK	Assets	296	(29)	29	165	(17)	17
	Liabilities	(284)	28	(28)	(287)	29	(29)
	Net	**12**	**(1)**	**1**	**(122)**	**12**	**(12)**

NOTE 29. EQUITY

EUR '000s	Number of shares (quantity)	Share capital	Share premium	Total
at 1 January 2017	**9,040,298**	**7,540**	**15,512**	**23,052**
Issue of additional shares	4,520,149	4,240	5,518	**9,758**
at 31 December 2017	**13,560,447**	**11,780**	**21,030**	**32,810**
Issue of additional shares	–	–	–	–
at 31 December 2018	**13,560,447**	**11,780**	**21,030**	**32,810**

On 13 February 2017, the Board of Directors of DDM Holding AG proposed an issue of new shares with pre-emptive subscription rights for the existing shareholders of up to SEK 104M (approximately EUR 11M) (the "Rights Issue"), which was approved by an extraordinary general meeting on 8 March 2017. The Rights Issue was carried out with the intention of increasing DDM's ability to capture attractive growth opportunities in the Company's markets over the foreseeable future. For each existing share held in DDM one pre-emptive subscription right was received. Two pre-emptive subscription rights entitled investors to subscribe for one new share at a subscription price of SEK 23.00 per share. In addition, investors were offered the possibility to subscribe for new shares without pre-emptive subscription rights. The Rights Issue was fully subscribed. 4,520,149 new shares were issued, corresponding to a gross equity raise of approximately EUR 11M (approximately SEK 104M). Transaction costs of approximately EUR 1.2M associated with the Rights Issue were accounted for as a deduction from equity. Following the issue, the number of shares in DDM Holding AG amounted to 13,560,447 shares with a nominal value of CHF 1 per share.

All shares have been issued and fully paid.

The Annual General Meeting on 27 May 2015 resolved to amend DDM Holding AG's articles of association for the purpose of increasing the authorized capital by 3,550,000 shares. There was a two year expiry period associated with the increase. The Company issued 1,940,298 shares in 2016, leaving an open capital amount of 1,609,702 shares, which expired on 27 May 2017. At the same time, the shareholders authorized a conditional capital increase of 500,000 shares. The conditional capital has no time restriction.

The Annual General Meeting on 31 May 2017 resolved to amend DDM Holding AG's articles of association for the purpose of increasing the authorized capital and the conditional capital. The shareholders approved authorized capital of 6,780,223 shares, which can be issued until 31 May 2019. The Board of Directors is authorized to restrict or deny pre-emptive subscription rights of shareholders or to allocate such rights to third parties in the extent of up to 3,390,111 shares in specific cases outlined in the articles of association. In addition, 1,500,000 shares of conditional capital (new Article 3^{ter}) were authorized for capital increases by exercising conversion or option rights in connection with the issuance of loans, bonds or similar debt instruments, equity-linked instruments or other financial market instruments. The conversion rights may be exercisable during a maximum of 15 years and option rights during a maximum of 7 years from the time of the respective issue, whilst contingent conversion features may remain in place indefinitely. There is no time restriction on the existing conditional capital (article 3^{quater}).

The Annual General Meeting on 23 May 2018 resolved to amend DDM Holding AG's articles of association for the purpose of increasing the conditional share capital (article 3^{quater}) from the 500,000 shares of existing conditional capital (article 3^{quater}) created on 27 May 2015. The shareholders approved an increase in the conditional share capital (article 3^{quater}) to a maximum aggregate amount of CHF 1,000,000.00 through the issuance of a maximum of 1,000,000 registered shares, which shall be fully paid-in, with a nominal value of CHF 1.00 per share by either the issuance of shares to employees or members of the Board of Directors of the Company or of group companies or the exercise of option rights which are granted to employees or members of the Board of Directors of the Company or of group companies, both according to one or more plan(s) to be drawn up by the board of directors, taking into account performance, functions, levels of responsibility and profitability criteria. Such shares or subscription rights may be issued at a price lower than that quoted on the stock exchange. The advance subscription rights and the pre-emptive subscription rights of the shareholders are excluded. The acquisition of registered shares through the exercise of option rights and each subsequent transfer of the shares shall be subject to the provisions of Art. 5 of the Articles of Association.

	Authorized capital (number of shares) Article 3^{bis}	Conditional capital (number of shares) Article 3^{quater}	Conditional capital (number of shares) Article 3^{ter}
Number of shares created on 27 May 2015	**3,550,000**	**500,000**	**–**
Issued	(1,940,298)	–	–
Expired	(1,609,702)	–	–
Number of shares created on 31 May 2017	**6,780,223**	**–**	**1,500,000**
Issued	–	–	–
Expired	–	–	–
Number of shares created on 23 May 2018	**–**	**500,000**	**–**
Issued	–	–	–
Expired	–	–	–
Open capital	**6,780,223**	**1,000,000**	**1,500,000**

Other reserves comprise exchange differences arising through translation of foreign operations and deferred tax on post-employment benefit commitments.

NOTE 30. RELATED PARTIES

The Company has defined its Executive Management Committee, Board of Directors and owners of the Company, including the companies associated with them, as related parties.

Related party transactions were made on terms equivalent to those that prevail in arm's length transactions.

The following transactions were carried out with related parties (excluding board member fees):

For the year ended 31 December EUR '000s	Type of transaction	Name	2018	2017
Income Statement	Consulting expenses	Kent Hansson (and owned companies)	303	317
		Erik Fällström and Andreas Tuczka (and owned companies)	135	–
		Manuel Vogel (and owned companies)	108	91
		Torgny Hellström (and owned companies)	72	–
		Fredrik Waker (and owned companies)	16	–
		Andreas Tuczka (and owned companies)	–	97
	Office rent expense	Manuel Vogel	117	82
		Andreas Tuczka	30	11
Income Statement, Total			**781**	**598**

In 2018 Aldridge EDC Speciality Finance Ltd (AEDC), a company related to Demeter Finance being the largest shareholder in DDM, whose shares are ultimately held by trusts attributable to Erik Fällström and Andreas Tuczka, has entered into an agreement with DDM where AEDC provides business development services for identified projects. Business development services from AEDC to DDM Group during the year ended 31 December 2018 amounted to EUR 503k, which is subject to the approval of the shareholder at the 2019 Annual General Meeting in accordance with Swiss law. In relation to this total amount, EUR 135k has been recognized to consultancy expenses and EUR 368k has been capitalized as prepayments as part of ongoing transactions.

Key management personnel remuneration is detailed in note 8 "Personnel expenses" and in the compensation report on pages 37 to 40.

The Company has an office rental lease contract in Switzerland. The contract was with Manuel Vogel in 2017 and 2018. The term of the lease agreement ends in November 2026 and is thereafter subject to a six month termination notice period. The undiscounted cash flows arising from the contractually bound leasing commitments, based on the remaining period to the earliest contractual maturity date as at the balance sheet date, are specified in the table below:

EUR '000s	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
At 31 December 2018	143	570	416	**1,129**
At 31 December 2017	78	314	346	**739**

Amounts in foreign currencies are estimated using the exchange rates applicable on the balance sheet date.

At 31 December 2018, the major shareholders were Demeter Finance Sarl (part of the Aldridge EDC Specialty Finance Group), which was co-founded by Erik Fällström and Andreas Tuczka, who held 6,764,783 shares (49.9% participation), Kent Hansson, who held 584,027 shares (4.3% participation) and Dr. Manuel Vogel, who held 469,070 shares (3.5% participation).

At 31 December 2017, the major shareholders were Demeter Finance Sarl (part of the Aldridge EDC Specialty Finance Group), which was co-founded by Erik Fällström and Andreas Tuczka, who held 6,714,783 shares (49.5% participation), Kent Hansson, who held 584,027 shares (4.3% participation) and Dr. Manuel Vogel, who held 469,070 shares (3.5% participation).

In 2017 DDM undertook an investment in a Greek NPL transaction which was executed by making a structured investment of a net amount of EUR 36,430k into a Luxembourg SPV ("Artemis Finance Holding S.A.R.L."), whose shares are ultimately held by trusts attributable to Erik Fällström and Andreas Tuczka. Transactions between DDM Group companies (fully consolidated) and Artemis Finance Holding (and its subsidiaries) were as follows:

EUR '000s		31 December 2018	31 December 2017
Income Statement	Net collections	13,961	1,958
	Revenue from management fees	420	300
	Amortization	(2,085)	1,257
Income Statement, Total		**12,296**	**3,515**

EUR '000s		31 December 2018	31 December 2017
Balance sheet	Distressed asset portfolios	35,626	37,712
	Accounts receivable	4,556	1,958
	Other receivables	226	300
Balance sheet, Total		**40,408**	**39,970**

In 2017 the Achilles Trust, which is associated with Erik Fällström, received EUR 1,430k relating to the provision of EUR 20M of bridge financing to Artemis Finance Holding S.A.R.L. for the Greek NPL transaction. The bridge financing was replaced by DDM's current co-investor Ellington Capital Management and therefore at 31 December 2017 the Achilles Trust was no longer an investor in the Greek NPL transaction.

NOTE 31. CONTINGENT LIABILITIES AND COMMITMENTS

The Company has entered into operational leases for office premises, motor vehicles and office equipment in Switzerland, Sweden, Slovenia and Hungary. In Switzerland the term of the lease agreement ends in November 2026 and is thereafter subject to a six month termination notice period. At 31 December 2018 in Slovenia the earliest termination date for the office lease agreement was 31 August 2019, in Sweden the earliest termination date for the office lease agreement was 31 March 2019 and in Hungary the earliest termination date for the office lease agreement was 22 December 2019. At 31 December 2017 in Slovenia the earliest termination date for the office lease agreement was 31 August 2019 and in Sweden the earliest termination date for the office lease agreement was 31 October 2018. The undiscounted cash flows arising from the contractually bound leasing commitments, based on the remaining period to the earliest contractual maturity date as at the balance sheet date, are specified in the table below:

EUR '000s	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
At 31 December 2018	256	636	416	**1,308**
At 31 December 2017	119	314	346	**779**

Amounts in foreign currencies are estimated using the exchange rates applicable on the balance sheet date.

There were no commitments related to capital expenditure as of 31 December 2018 and 31 December 2017.

NOTE 32. BUSINESS COMBINATIONS

As at 7 November 2018, DDM acquired the remaining 80 percent share of the economic rights to a distressed asset portfolio located in Hungary, Finalp Zrt for a total consideration of EUR 1.2M, resulting in a gain on bargain purchase of EUR 2.0M recognized in the consolidated income statement as other operating income. Prior to acquisition DDM owned the rights to 20 percent of the portfolio and 100 percent of the equity in Finalp Zrt, which has been reclassified from other long term receivables from investment to distressed asset portfolios.

Acquired net assets	EUR '000s
Distressed asset portfolios	2,395
Cash and cash equivalents	915
Acquired assets	**3,310**
Provisions	(179)
Assumed liabilities	**(179)**
Acquired net assets	**3,131**
Total purchase price	(1,164)
Gain on bargain purchase	**1,967**

Acquired assets
The fair value of the assets acquired include the the present value of future cash flows of the non-perfoming loans discounted at the initial rate of return under amortised cost and the cash and cash equivalents held at bank at acquisition by Finalp Zrt.

Acquired liabilities
The fair value of the liabilities assumed at acquisition includes a provision for restricted cash payable to third parties as part of a previous settlement.

Purchase consideration
The purchase price for Finalp Zrt amounted to EUR 1.2M as at 7 November 2018. This sum includes a cash consideration of EUR 0.5M and the fair value of the existing 20 percent of the portfolio amounting to EUR 0.7M previously acquired. The costs relating to the acquisition amounted to EUR 6k were recognised directly in the income statement under consulting expenses.

Revenue and profit contribution
If the business combination had occurred as at 1 January 2018, Finalp Zrt would have contributed a further EUR 1.7M to net collections and EUR 0.8M to net profit for the year ended 31 December 2018.

NOTE 33. SUBSEQUENT EVENTS

On 17 December 2018, Demeter Finance S.à r.l. announced a public cash offer to acquire all outstanding shares in DDM Holding AG at a price of SEK 40.00 per share, subject to certain completion conditions. The independent members of the board of DDM Holding AG, Torgny Hellström (Chairman of the Board) and Fredrik Waker, announced on the 5 March 2019 the recommendation to not accept the offer as it is not in the financial interest of the shareholders, including a fairness opinion from Handelsbanken. The acceptance period is expected to end on or around 12 April 2019. The EUR 85M bond loan contains a change of control put option whereupon each bondholder shall have the right to request that its bonds are redeemed at a price per bond equal to 101 per cent of the outstanding nominal amount together with accrued but unpaid Interest.

On 13 February 2019, Demeter Finance S.à r.l. announced that it has solicited interest and agreed with 56% of the bondholders, to waive the change of control put option and consent to certain amendments to the terms and conditions of the bonds, provided DDM Debt requests such a decision by the bondholders in accordance with the terms and conditions.

On 16 January 2019, DDM entered into an agreement to acquire a significant distressed asset portfolio containing secured corporate receivables in Croatia. The acquisition is made through a Joint Venture structure together with B2Holding where each party holds 50%. The Gross Collection Value (face value) of the portfolio amounts to approximately EUR 800M. The investment is subject to regulatory approval and is expected to close in the second quarter of 2019, which will be financed using the cash on hand and internally generated cashflows.

In February 2019, DDM launched a partnership with 720 Restructuring & Advisory that will provide portfolio management services to jointly manage and oversee the debt collection process for portfolios in the Balkans. This will complement the existing network of outsourced debt collection agencies and enable DDM to be closer to the market ensuring increased control and management of larger, more complex work outs of corporate secured receivables.

The Company successfully reached an agreement in March 2019 for a super senior revolving credit facility of EUR 27M with an international bank, priced at three month Euribor plus a margin of 3.5%. The revolving credit facility is available to finance acquisitions and for general corporate purposes for a period of up to two years and is permitted under the senior secured bond frameworks.

Report of the statutory auditor
to the General Meeting of DDM Holding AG
Baar

Report on the audit of the consolidated financial statements

Opinion
We have audited the consolidated financial statements of DDM Holding AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements (pages 46 to 71) give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion
We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall Group materiality: EUR 1 945 000

We concluded full scope audit work at six reporting units in two countries. Other units within the Group are considered according to their statutory audit requirements. In addition, specified procedures were performed on invested assets and revenue on invested assets through all units of the Group. Our audit addresses full coverage of the Group's invested assets and of the Group's revenue on invested assets.

As key audit matter the following areas of focus has been identified:

Valuation of invested assets and recognition of revenue on invested assets

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Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the consolidated financial statements as a whole.

Overall Group materiality	EUR 1 945 000
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, the invested assets are a relevant metric used by the readers of the consolidated financial statements. Profit before tax is a more commonly applied benchmark, however, in our view, this would not have been an appropriate benchmark given that DDM is in a state of rapid growth and the volatility observed in the income statements of recent years.

We agreed with the Audit Committee that we would report to them misstatements above EUR 90 000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of invested assets and recognition of revenue on invested assets

Key audit matter	*How our audit addressed the key audit matter*
As DDM is a multinational investor and manager of distressed assets, the invested assets are the most significant position in the financial statements. The	Our audit approach included, among others, an assessment of the company's assumptions for the valuation of the invested assets (distressed asset

invested assets also represent the ability of the company to generate cash flows and further profits in the coming periods. The invested assets are considered as a key audit matter due to the size of the balance (EUR 119 Mio, representing 61% of the total assets) as well as considerable judgement with respect to the assumptions about the future cash flow forecasts.

DDM invests in distressed asset portfolios, where the receivables are directly from the debtor, and in other long-term receivables from investments, where the receivables are from non- consolidated entities holding the portfolios of loans (together "invested assets"). The valuation of these invested assets is based on the expected future cash flows (ERC, "Estimated Remaining Collections"). The procedures of the company to determine the ERC is set out in note 5 Critical estimates and assumptions in applying the company's accounting principles.

The revenue on invested assets represents the economical profit of the invested assets for the period, applying the amortized cost method, including also the reassessment of future cash flows.

We focussed on this area due to the size of the balances and the fact that there is judgement involved in assessing the expected future cash flows. The net collections and the revenue on invested assets amount to EUR 66 Mio and EUR 31 Mio respectively.

portfolios and other long-term receivables from investments). This includes mainly the following procedures:

- We checked the initial recognition by reviewing the contractual basis for the initial measurement. We obtained supporting documents from the due diligence process and challenged the management assumptions of the expected future cash flows. In addition, we assessed whether the accounting memorandums created by the management are in compliance with IFRS 9.
- We considered the appropriateness of the estimates and assumptions management uses in the valuation models. This includes checking the expected future cash flows and internal rate of return (IRR) used in the model with the initially approved figures. We also challenged the reasonableness of the assumptions made by the management with market data and available industry data.
- We evaluated the back-testing to validate that the cause of observed deviations of actual collections from previous forecasts are understood by management, and that forecasts have been appropriately revised in consideration of new knowledge.
- We performed an independent assessment of the reasonableness of the ending valuation and of the decay curve of forecasted cash flows based on the experience and data available for similar transactions and portfolios.

We found the carrying values of the invested assets acceptable based on the range of valuation that we independently calculated and our testing of the process and method set out by the management for the estimates used.

The collection process is outsourced to local collection agencies, selected by DDM and suitable for collection of a particular class of asset. With focus on collection, which is a key driver for reassessment of future cash flows and therefore revenue on invested assets, we performed the following procedures:

- We tested the correct accounting treatment regarding recognition of the invested assets based on the methodology as set out in the notes 3 Summary of significant accounting policies and 6 Reconciliation of revenue on invested assets and revenue from management fees.

- We performed testing on the control which ensures that the collection reports issued by the collection agencies is agreed between the collection agencies and DDM's collection managers and the cash settlement occurs according to the collection report.
- We performed testing on the monitoring of the collection agencies by considering the initial and continuous due diligence on collection agencies. We checked, if the collection agencies are periodically (re)assessed and DDM's collection managers perform audits on site.
- We tested substantively a sample of collections occurred to validate that collections are correctly recognised.
- We tested substantively on a sample basis to validate that cash settlements were in accordance with collection reports.
- We performed testing of the IT environment. We focused on IT general controls, especially for the asset management system Fusion. We also tested the application controls within the system Fusion for the acceptance protocols with the collection agencies. (ITGC and application controls).

Based on our audit procedures performed, we concluded that the net collections have been received and recognized correctly and the revenue on invested assets is free from material misstatement.

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of DDM Holding AG and our auditor's reports thereon.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we 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 for the consolidated financial statements
The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

A further description of our responsibilities for the audit of the consolidated financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Peter Eberli	Valentin Studer
Audit expert Auditor in charge	Audit expert

Luzern, 28 March 2019

DDM HOLDING AG, BAAR

Standalone Financial Statements

INCOME STATEMENT

DDM HOLDING AG, BAAR

For the year ended 31 December Amounts in '000s	2018 EUR	2018 CHF	2017 EUR	2017 CHF
Operating income	**650**	**753**	**650**	**717**
Personnel expenses	(375)	(434)	(363)	(400)
Other operating expenses	(975)	(1,129)	(792)	(873)
Operating result	**(700)**	**(810)**	**(505)**	**(556)**
Financial income	49	57	86	95
Financial income from group companies	2,260	2,617	1,624	1,791
Financial expenses	(83)	(97)	(342)	(377)
Profit before taxes	**1,526**	**1,767**	**863**	**953**
Direct taxes	(108)	(125)	(70)	(77)
Net profit for the year	**1,418**	**1,642**	**793**	**876**

BALANCE SHEET

DDM HOLDING AG, BAAR

As at 31 December Amounts in '000s	2018 EUR	2018 CHF	2017 EUR	2017 CHF
ASSETS				
Current assets				
Cash and cash equivalents	84	94	29	34
Receivables from direct / indirect investments	621	700	1,982	2,320
Other current receivables	158	179	125	146
Accrued income and prepaid expenses				
due from direct / indirect investments	289	325	252	294
Total current assets	**1,152**	**1,298**	**2,388**	**2,794**
Non-current assets				
Accrued interest income				
due from direct / indirect investments	1,433	1,615	483	566
Financial assets				
Loans to direct / indirect investments	3,917	4,414	3,403	3,983
Loans to direct / indirect investments (subordinated)	24,668	27,258	23,395	25,787
Investments	4,097	5,502	4,097	5,502
Total non-current assets	**34,115**	**38,789**	**31,378**	**35,838**
TOTAL ASSETS	**35,267**	**40,087**	**33,766**	**38,632**
SHAREHOLDERS' EQUITY AND LIABILITIES				
Short-term liabilities				
Trade payables	51	56	19	22
Accrued expenses and deferred income				
due to third parties	383	432	332	388
Total short-term liabilities	**434**	**488**	**351**	**410**
Total liabilities	**434**	**488**	**351**	**410**
Shareholders' equity				
Share capital	11,780	13,560	11,780	13,560
Legal reserves				
Reserves from capital contribution	20,993	24,171	20,993	24,171
Statutory retained earnings	44	51	12	14
Exchange variation reserve	–	(518)	–	(253)
Profit / (loss) brought forward	598	693	(163)	(146)
Profit for the year	1,418	1,642	793	876
Total shareholders' equity	**34,833**	**39,599**	**33,415**	**38,222**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	**35,267**	**40,087**	**33,766**	**38,632**

NOTE 1. CORPORATE INFORMATION

DDM Holding AG is incorporated and domiciled in Switzerland. Its registered office is at Schochenmühlestrasse 4, CH-6340 Baar, Switzerland. DDM Holding AG operates under the Swiss Code of Obligations (“CO”) as a stock corporation (Aktiengesellschaft). DDM Holding AG’s shares are admitted to trading on a multilateral trading facility, the Nasdaq First North in Stockholm, Sweden. The purpose of the corporation is to acquire, hold, administrate, finance and sell participations in enterprises in Switzerland and abroad. The DDM group operates as a multinational investor in, and manager of, distressed asset portfolios.

NOTE 2. ACCOUNTING PRINCIPLES APPLIED IN THE PREPARATION OF THE FINANCIAL STATEMENTS

The DDM Holding AG standalone financial statements have been prepared in accordance with the provisions of commercial accounting as set out in the Swiss Code of Obligations (Art. 957 to 963b CO, effective since 1 January 2013). Where not prescribed by law, the significant accounting and valuation principles applied are described below.

Dispensations in the standalone financial statements
As DDM Holding AG prepares consolidated financial statements in accordance with a recognized financial reporting standard (International Financial Reporting Standard, IFRS) DDM Holding AG is exempt from various disclosures in the standalone financial statements and therefore dispensed with the requirement to present the additional information in the notes, the cash flow statement and the management report (article 961d para 2 Swiss CO).

Foreign currencies
As the majority of the business activities of DDM Holding AG is in euro, the functional currency is the euro. The exchange rates used for balance sheet items are the rates prevailing on 31 December; the exchange rates used for transactions conducted during the course of the year and for items in the profit and loss statement are average rates for the respective financial year. Equity, participations and subordinated loans are translated at historical rates.

The following exchange rates were applied:

Exchange rates		31 December 2018	31 December 2017
Balance sheet (spot rate balance sheet date)	EUR/CHF	1.1269	1.1702
Income statement (average rate)	EUR/CHF	1.1580	1.1025

Financial assets
Financial assets include loans to direct and indirect investments within the DDM group with a long-term holding period. Financial assets are measured at cost less impairment.

Investments in subsidiaries
Investments in subsidiaries are equity interests which are held for the purpose of DDM Holding AG’s business activities. They include all directly held subsidiaries through which DDM conducts its business. The investments are measured individually and carried at cost less impairment.

Operating income
Income relating to management services provided to its subsidiaries is recognized in operating income in the period in which it occurred.

NOTE 3. INVESTMENTS IN EQUITY PARTICIPATIONS

Directly held equity participations as of 31 December:

Company	Corporate identity number	Registered office	Primary business	2018 Share capital (CHF ‘000s)	2018 Interest	2017 Share capital (CHF ‘000s)	2017 Interest
DDM Group AG	CHE 115.278.533	Baar (CH)	Business operation	232	100%	232	100%

Indirectly held equity participations as of 31 December:

Company	Corporate identity number	Registered office	Primary business	2018 Share capital (CHF '000s)	2018 Interest	2017 Share capital (CHF '000s)	2017 Interest
DDM Invest I AG	CHE 113.863.850	Baar (CH)	Investment activities	232	100%	232	100%
DDM Invest II AG	CHE 115.038.302	Baar (CH)	Investment activities	100	100%	100	100%
DDM Invest III AG	CHE 115.238.947	Baar (CH)	Investment activities	150	100%	100	100%
DDM Invest IV AG	CHE 317.413.116	Baar (CH)	Investment activities	100	100%	100	100%
DDM Invest VII AG	CHE 153.128.633	Baar (CH)	Investment activities	100	100%	100	100%
DDM Invest X AG	CHE 130.419.930	Baar (CH)	Investment activities	100	100%	100	100%
DDM Invest XX AG	CHE 349.886.186	Baar (CH)	Investment activities	150	100%	100	100%
DDM Treasury Sweden AB 1)	556910-3053	Stockholm (SE)	Provision of funding	71	100%	71	100%
DDM Finance AB 2)	559053-6214	Stockholm (SE)	Holding company	6	100%	6	100%
DDM Debt AB 3)	559053-6230	Stockholm (SE)	Provision of funding	59	100%	59	100%
DDM Facility Finance AB 4)	559121-4779	Stockholm (SE)	Holding company	6	100%	–	–
DDM Facility Debt AB 5)	559121-3276	Stockholm (SE)	Provision of funding	6	100%	–	–
DDM Invest V d.o.o. 6) (formerly Ahive d.o.o.)	8297355000	Ljubljana (SL)	Investment activities	8	100%	–	–
DDM Invest VII d.o.o. 7)	7109806000	Ljubljana (SL)	Investment activities	8	100%	8	100%
Profinance doo Beograd 8)	20298928	Belgrade (RS)	Factoring services	–	–	432	49.67%
DDM Debt Management d.o.o Beograd 9)	21313963	Belgrade (RS)	Investment activities	–	100%	–	100%
DDM Debt Romania S.R.L 10)	39689815	Bucharest (RO)	Investment activities	123	100%	–	–
CE Partner S.a.r.l. 11)	B230176	Luxembourg (LUX)	Investment activities	14	50%	–	–
CE Holding Invest S.C.S 12)	B230358	Luxembourg (LUX)	Investment activities	14	49.99%	–	–

1) The share capital of DDM Treasury Sweden AB is EUR 52k.
2) The share capital of DDM Finance AB is EUR 6k.
3) The share capital of DDM Debt AB is EUR 54k.
4) The share capital of DDM Facility Finance AB is EUR 6k.
5) The share capital of DDM Facility Debt AB is EUR 6k.
6) The share capital of DDM Invest V d.o.o. is EUR 8k.
7) The share capital of DDM Invest VII d.o.o. is EUR 8k.
8) 100% of the share capital of Profinance doo Beograd is RSD 48,546k.
9) The share capital of DDM Debt Management d.o.o Beograd is RSD 100.
10) The share capital of DDM Debt Romania S.R.L is RON 500k.
11) The share capital of CE Partner S.a.r.l. is EUR 12k
12) The share capital of CE Holding Invest S.C.S is EUR 12k

NOTE 4. PERSONNEL

DDM Holding AG had no employees as of and during the year ended 31 December 2018 (31 December 2017: 0). All employees of the consolidated DDM group were employed by subsidiaries of DDM Holding AG.

NOTE 5. CONTINGENT LIABLITIES

DDM Holding AG is jointly and severally liable for the value added tax (VAT) liability of the Swiss subsidiaries (DDM Group AG, DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest VII AG, DDM Invest X AG and DDM Invest XX AG) that belong to its VAT group.

NOTE 7. SIGNIFICANT EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 17 December 2018, Demeter Finance S.à r.l. announced a public cash offer to acquire all outstanding shares in DDM Holding AG at a price of SEK 40.00 per share, subject to certain completion conditions. The independent members of the board of DDM Holding AG, Torgny Hellström (Chairman of the Board) and Fredrik Waker, announced on the 5 March 2019 the recommendation to not accept the offer as it is not in the financial interest of the shareholders, including a fairness opinion from Handelsbanken. The acceptance period expected to end on or around 12 April 2019. The EUR 85M bond loan contains a change of control put option whereupon each bondholder shall have the right to request that its bonds are redeemed at a price per bond equal to 101 per cent of the outstanding nominal amount together with accrued but unpaid Interest.

On 13 February 2019, Demeter Finance S.à r.l. announced that it has solicited interest and agreed with 56% of the bondholders, to waive the change of control put option and consent to certain amendments to the terms and conditions of the bonds, provided DDM Debt requests such a decision by the bondholders in accordance with the terms and conditions.

On 16 January 2019, DDM group entered into an agreement to acquire a significant distressed asset portfolio containing secured corporate receivables in Croatia. The acquisition is made through a Joint Venture structure together with B2Holding where each party holds 50%. The Gross Collection Value (face value) of the portfolio amounts to approximately EUR 800M. The investment is subject to regulatory approval and is expected to close in the second quarter of 2019, which will be financed using the cash on hand and internally generated cashflows.

In February 2019, DDM group launched a partnership with 720 Restructuring & Advisory that will provide portfolio management services to jointly manage and oversee the debt collection process for portfolios in the Balkans. This will complement the existing network of outsourced debt collection agencies and enable DDM to be closer to the market ensuring increased control and management of larger, more complex work outs of corporate secured receivables.

PROPOSED APPROPRIATION OF THE AVAILABLE EARNINGS

The Board of Directors proposes the following appropriation to the shareholders:

Amounts in '000s	2018 EUR	2018 CHF	2017 EUR	2017 CHF
Net profit for the year	1,418	1,642	793	876
Retained profit / (loss) carried forward	598	693	(163)	(146)
Amount at the disposal of the shareholders	**2,016**	**2,335**	**630**	**730**
Proposal				
Allocation to statutory retained earnings	71	82	32	37
To be carried forward	**1,945**	**2,253**	**598**	**693**

Report of the statutory auditor to the General Meeting of DDM Holding AG, Baar

Report on the audit of the financial statements

Opinion
We have audited the financial statements of DDM Holding AG, which comprise the balance sheet as at 31 December 2018, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the financial statements (pages 78 to 82) as at 31 December 2018 comply with Swiss law and the company's articles of incorporation.

Basis for opinion
We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

Overall materiality: EUR 352 700

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the entity, the accounting processes and controls, and the industry in which the entity operates.

As a key audit matter the following area of focus has been identified:

Valuation of the investments, including loans

Materiality
The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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Overall materiality	EUR 352 700
How we determined it	1% of total assets
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, it is the most appropriate benchmark for a holding company which has limited operating activities and which holds mainly investments in subsidiaries and intra-group loans.

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

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

Valuation of the investments, including loans

Key audit matter	*How our audit addressed the key audit matter*
The purpose of DDM Holding AG is to hold the group companies of DDM. The investments including loans contain the following positions in the balance sheet: • Loans to direct/indirect investments, • Loans to direct/indirect investments (subordinated) and • Investments. The direct and indirect investments held by DDM Holding AG are listed in note 3 to the financial statements. Investments including the loans are measured at cost less impairment (carrying value) according to the accounting principles in note 2. Impairment is recognised when the carrying amount exceeds the recoverable amount. Management uses judgement when determining the recoverable amount of the investment units. This judgement relates to the estimation of the future cash flows of the invested assets held by the investment units. As the investments basically only contain the invested assets, these are the relevant key drivers for the value of these investment units. Due to the size and the applied managements' judgement, the investments including the loans are considered a key audit matter as the amount of EUR 34 Mio represents 97% of the total assets.	Our focus for testing the investments including the loans was the invested assets held by the investment units, as the invested assets are the key driver for the value of the investments and include significant management judgement. We therefore tested that the carrying value of the investments including loans does not exceed the values of the invested assets as determined in the consolidated financial statements applying IFRS. We considered our audit procedures performed concerning the valuation of the invested assets in the consolidated financial statements to assess the recoverable amount of these invested assets. In doing the above procedures we particularly challenged management through substantive review of the business plan, including budget and liquidity plan, as the valuation of the invested assets is highly dependent on the business plan and the investing activities of the DDM group. Based on our audit procedures performed, we agree with management's assessment and judgement applied for the valuation of the investments including loans.

Responsibilities of the Board of Directors for the financial statements
The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the website of EXPERTsuisse: http://expertsuisse.ch/en/audit-report-for-public-companies. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers AG

Peter Eberli	Valentin Studer
Audit expert Auditor in charge	Audit expert

Luzern, 28 March 2019

THREE-YEAR OVERVIEW

For the year ended 31 December Amounts in EUR '000s	2018	2017	2016
Consolidated income statement summary			
Net collections	65,669	37,434	34,225
Revenue from management fees	1,233	1,876	1,207
Operating expenses*	(9,246)	(7,039)	(6,149)
Cash EBITDA	57,656	32,271	29,283
Amortization, revaluation and impairment of invested assets	(37,425)	(18,959)	(19,306)
Operating profit	22,068	13,169	9,843
Net profit for the year	4,817	664	5,341
Earnings per share before and after dilution (EUR)	0.36	0.05	0.65
Consolidated balance sheet summary			
Total assets	194,534	183,577	66,375
Net debt	87,363	86,048	28,777
Selected key ratios			
Cash flow from operating activities before working capital changes	43,685	21,639	20,173
Cash investments in distressed asset portfolios and other long-term receivables from investments	42,313	95,579	24,627
Gross ERC 120 months, EUR M	240	250	80
Number of shares outstanding at end of the year	13,560,447	13,560,447	9,040,298
Average number of employees	24	20	22

* Operating expenses do not include depreciation and amortization of tangible and intangible assets.

GLOSSARY

AGM
Annual General Meeting

BN
Billion

CAGR
Compound annual growth rate

Certified Adviser
All companies with shares traded on Nasdaq First North have a Certified Adviser that monitors the companies' compliance with the rules and regulations of First North concerning disclosure of information to the market and investors

CHF
Swiss franc, the currency of Switzerland

Computershare Schweiz
Swiss service provider, Computershare Schweiz AG (formerly SIX SAG AG), takes care of post-trade processes ranging from clearing and settlement through to securities custody, and maintains share registers and special registers

CZK
Czech koruna, the currency of the Czech Republic

DCA
Debt collection agency

DDM, the Company or the Group
DDM Holding AG, reg. no. CHE-115906312, and its subsidiaries

EUR
Refer to the single currency of the participating member states in the Third Stage of European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time

Euroclear
Euroclear Sweden AB, reg. no. 556112-8074

First North
Nasdaq First North, Stockholm

FUSION
DDM's proprietary IT system, which integrates investment data, case data, payment data and activity data into one effective and comprehensive IT system

HRK
Croatian Kuna, the currency of Croatia

HUF
Hungarian forint, the currency of Hungary

M
Million

NPL
Non-performing loans

PARENT COMPANY
DDM Holding AG, CHE-115906312

RON
Romanian leu, the currency of Romania

RSD
Serbian dinar, the currency of Serbia

SEK
Swedish krona, the currency of Sweden

Southern, Central and Eastern Europe ("SCEE")
The countries in EuroVoc's definition of CEE, plus Greece, Italy and the Baltic states

USD
U.S. dollar, the currency of the United States

FINANCIAL DEFINITIONS

Amortization of invested assets
The carrying value of invested assets are amortized over time according to the effective interest rate method

Cash EBITDA
Net collections and revenue from management fees, less operating expenses

Earnings per share
Net earnings for the period, attributable to the owners of the Parent Company, divided by the average number of shares during the period

EBIT
Earnings before interest and taxes

EBITDA
Earnings before interest, taxes, depreciation of fixed assets as well as amortization, revaluation and impairment of invested assets

EBIT margin
EBIT as a percentage of revenue on invested assets and revenue from management fees

Estimated Remaining Collections / ERC
The sum of all undiscounted future projected cash collections from acquired portfolios. ERC is not a balance sheet item, however it is provided for informational purposes

Equity
Shareholders' equity at the end of the period

Equity ratio
Equity as a percentage of total assets

Impairment of invested assets
Invested assets are reviewed at each reporting date and impaired if there is objective evidence that one or more events have taken place that will have a negative impact on the amount of future cash flows

Invested assets
DDM's invested assets consist of purchases of distressed asset portfolios and other long-term receivables from investments

Net collections
Gross collections from Portfolios held by the Group less commission and collection fees (but if such Portfolios are partly owned, only taking into consideration such Group Company's pro rata share of the gross collections and commission and fees)

Net debt
Long-term and short-term loans, liabilities to credit institutions (bank overdrafts) less cash and cash equivalents

Non-recurring items
One-time costs not affecting the Company's run rate cost level

Operating expenses
Personnel, consulting and other operating expenses

Revaluation of invested assets
Invested assets are reviewed at each reporting date and revalued 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

MULTINATIONAL INVESTOR AND MANAGER OF DISTRESSED ASSETS

DDM Holding AG (First North: DDM) is a multinational investor in and manager of distressed assets, offering the prospect of attractive returns from the expanding Southern, Central and Eastern European market. Since 2007, the DDM Group has built a successful platform in Southern, Central and Eastern Europe, and has acquired 2.3M receivables with a nominal value of over EUR 3.5BN.

For sellers (banks and financial institutions), management of portfolios of distressed assets is a sensitive issue as it concerns the relationship with their customers. For these sellers it is therefore critical that the acquirer handles the underlying individual debtors professionally, ethically and with respect. DDM has longstanding relations with sellers of distressed assets, based on trust and DDM's status as a credible acquirer.

The banking sector in Southern, Central and Eastern Europe is subject to increasingly stricter 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.

DDM Holding AG, the Parent Company, is a Company incorporated and domiciled in Baar, Switzerland and listed on Nasdaq First North in Stockholm, Sweden, since August 2014.

ddm

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