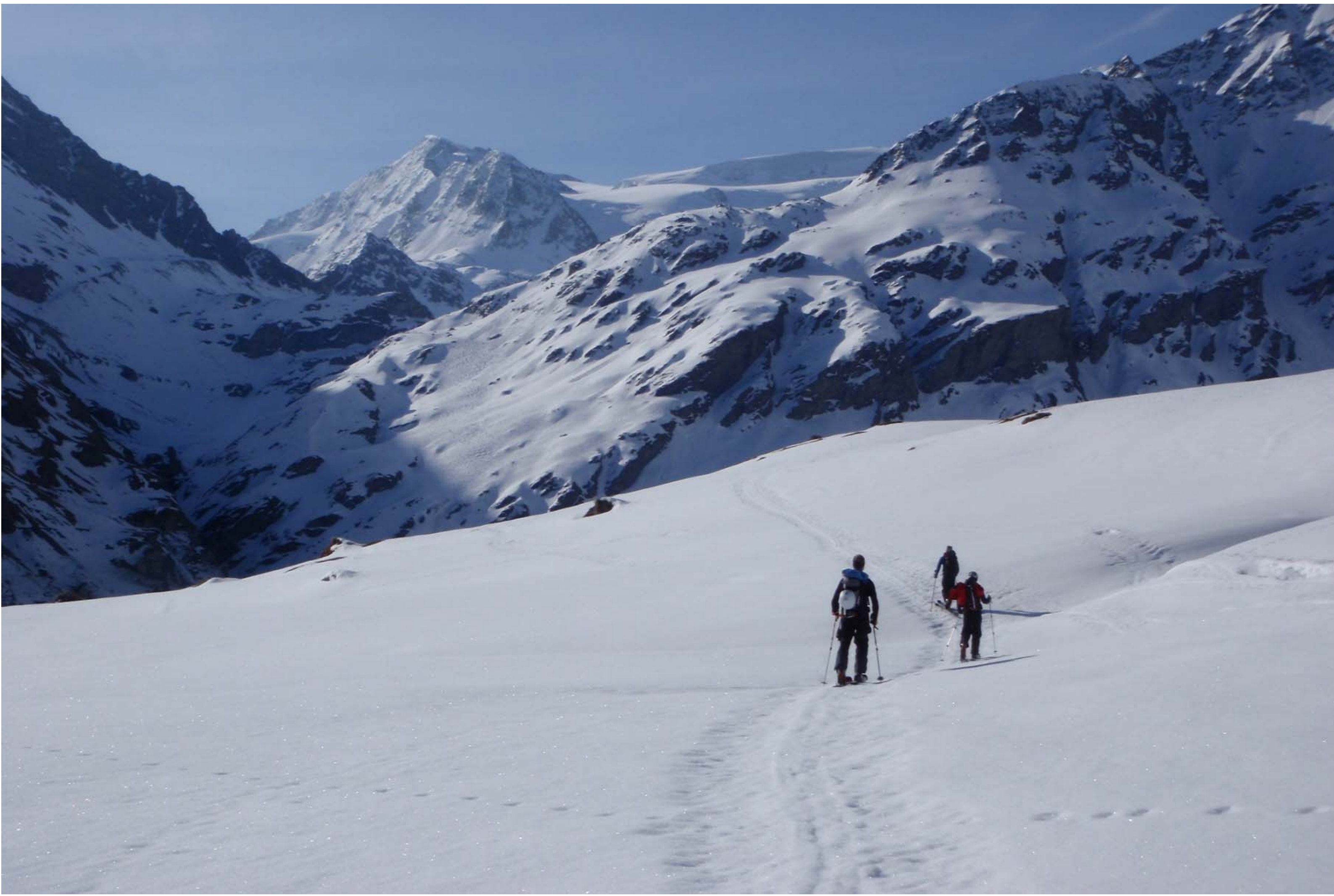
DDM DEBT AB (publ)

Corporate Identity Number 559053-6230

ANNUAL REPORT 2018

MULTINATIONAL INVESTOR
AND MANAGER OF DISTRESSED ASSETS



The DDM Debt AB (publ)
2018 Annual Report

DDM Debt AB (publ) ("DDM Debt" or the "Company") is a Swedish Company headquartered in Stockholm. Corporate registration number 559053-6230. DDM Debt and its subsidiaries are together referred to as ("the DDM Debt Group" or "the Group").

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

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

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

Production: DDM Debt.

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This is DDM Debt

Specialist in an expanding sector

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

The DDM Debt Group 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 for distressed assets including non-performing loans. For sellers, management of portfolios of distressed assets is a sensitive issue as it concerns the relationship with their customers. For sellers of portfolios it is therefore critical that the acquirer handles the underlying individual debtors professionally, ethically and with respect. The DDM Debt Group has longstanding relations with sellers of distressed assets, based on trust and the Company's status as a credible acquirer.

The banking sector in 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. As a result, banks are increasingly looking to divest portfolios of distressed and other non-core assets.

The DDM Debt Group acquires distressed assets mainly consisting of non-performing loans with an investment value of EUR 5–50M. Since inception, the DDM Debt Group has been successful in valuing distressed assets. A disciplined purchase process ensures efficient operations and allows for collections in line with forecasts. The valuation of a prospective debt portfolio is based on thorough due diligence and quantitative models linked to a reference database and considers criteria such as jurisdiction, claim size, borrower age, previous payment history, vendor type and collaterals and other securities (if applicable). The DDM Debt Group's database covers current and historical information at an individual and transactional level.

Since 2007 the DDM Debt Group has acquired 2.3 million receivables with a nominal value of over EUR 3.5BN.

To manage the acquired portfolios, the DDM Debt Group'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. Debt collections are managed by selected and well-reputed local debt collection agencies. Commissions paid to collection agencies are mainly performance-based and generally increase as receivables become older and more difficult to collect.

Subsequent to the end of 2018, the DDM Debt Group has 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 the DDM Debt Group to be closer to the market ensuring increased control and management of larger, more complex work outs of corporate secured receivables.

STATEMENT BY THE CEO

Record collections and cash EBITDA

Henrik Wennerholm,
CEO of DDM Debt

2018 has been an intense and exciting year for the DDM Debt Group 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 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 the DDM Debt Group's strategic shift towards becoming a specialized investor in secured corporate portfolios.

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. We expect to become fully invested in 2019 following the acquisition of a portfolio containing secured corporate receivables in Croatia.

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 % of ERC in June 2017 to 61 % 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 the DDM Debt Group's stakeholders, through enabling higher operating profit.

"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"

Record net collections and cash EBITDA

Net collections reached an all-time high level with collections of EUR 64.8M 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 58.0M in 2018.

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 bringing total investments for the year to approximately EUR 42M.

After the end of the year we announced a milestone acquisition through a 50% joint venture with B2Holding of a distressed asset portfolio containing secured corporate receivables in Croatia with a Gross Collection Value (face value) of approximately EUR 800M. Following the completion of this transaction the DDM Debt Group is expecting to become fully invested and the transaction will have a major impact on our ERC and other key financial measurements.

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 and 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 64.8M compared to EUR 34.9M 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 58.0M in 2018, compared to EUR 28.7M 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.

Operating expenses were EUR 6.8M for the full year 2018, EUR 0.6M 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 change in composition of the portfolios towards secured corporate portfolios now making up the majority share of our overall portfolio of assets will cause increased variability in our collections.

The net result for the year was a profit of EUR 2.1M for 2018, compared to EUR 1.4M for 2017, due to the 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 45.3M for the full year 2018 compared to EUR 22.0M for 2017. At 31 December 2018 we had a significant cash balance of EUR 57.3M, with a very strong pipeline for future investments in 2019.

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

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 the DDM Debt Group 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.

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

Significant events after the year end

The DDM Debt Group continued to deliver on its growth strategy as an investor in secured portfolios, expecting to become fully invested following 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%. 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. The transaction is expected to be financed by cash on hand and internally generated cashflows.

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 the DDM Debt Group to be closer to the market ensuring increased control and management of larger, more complex work outs of corporate secured receivables.

Administration Report

The Board of Directors and the CEO of DDM Debt AB (publ) hereby submit the annual report and consolidated financial statements for the 2018 financial year.

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

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

In 2016 DDM Invest VII AG, Switzerland, and DDM Invest VII d.o.o., Slovenia, were wholly owned subsidiaries of DDM Debt. In connection with the bond refinancing in Q1 2017, DDM Debt AB also acquired DDM Treasury Sweden AB's subsidiaries (DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest X AG and DDM Invest XX AG) holding the NPL portfolios on 17 February 2017. They are wholly owned subsidiaries, therefore this acquisition was not considered as a business combination according to IFRS 3, as the transaction was done in the ordinary course of business among entities which are under common control of DDM Holding AG. A new subsidiary of DDM Debt AB, DDM Debt Management d.o.o Beograd, was incorporated in Serbia on 22 August 2017 and DDM Debt Romania S.R.L was incorporated in Romania on 31 July 2018. DDM Invest V d.o.o. (formerly Ahive d.o.o.) is a 100% indirectly held subsidiary through DDM Invest I AG that was incorporated in Slovenia on 22 October 2018.

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

Facts and figures – The DDM Debt Group 2018
Consolidated revenue on invested assets during the year amounted to EUR 27,757k (2017: EUR 17,610k). Net collections during the year were EUR 64,759k (2017: EUR 34,859k), due to collections in the Balkans, Greece and the Czech Republic from portfolios acquired in H2 2017 and Q1 2018. Operating profit amounted to EUR 20,946k (2017: EUR 11,411k).

Profit before tax for the year amounted to EUR 3,081k (2017: EUR 2,327k) and net profit for the year was EUR 2,144k (2017: EUR 1,373k).

Significant events during the financial year
DDM Debt Group invested approximately 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. The DDM Debt Group closed two smaller investments in the Czech Republic and the Balkans totaling approximately EUR 6M bringing total investments for the year to approximately EUR 42M.

Strengthened the management team, with Henrik Wennerholm appointed as CEO in July who has extensive industry experience from companies such as Hoist, Aktiv Kapital (PRA Group) and, most recently, B2Holding ASA where he served as Head of Business Development and a member of the Group Executive Management Team. Mr. Wennerholm was also the founding partner and CEO of the Nordic NPL investor and debt recovery specialist Sileo Kapital AB, which was acquired by B2Holding ASA in 2014. Alessandro Pappalardo was appointed as Chief Investment Officer in February who has extensive industry experience, including from Goldman Sachs as well as Intrum Justitia, where he served as Chief Investment Officer on the Group Management Team. Kent Hansson, founder of the DDM Group and member of the Board of Directors was also appointed as interim CEO in February.

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 key focus area going forward to further improve flexibility, decrease the cost of capital and support our rapid growth.

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

Distressed asset portfolios and other long-term receivables from investments
The investment in Hungary is shown within other long-term receivables from investments. The receivables are against the local legal entities holding the leasing portfolios, in comparison to the distressed asset portfolios where the receivables are directly against the debtor. Distressed asset portfolios and other long-term receivables from investments, i.e. portfolios of overdue receivables, are acquired for significantly less than their nominal value after which the DDM Debt Group collects the receivables in cooperation with local debt collection agencies. As such, revenue on invested assets represents 100% of the consolidated income.

In 2018, the cash purchase price of investments in distressed asset portfolios and other long-term receivables from investments, amounted to EUR 42,313k (2017: EUR 77,229k, net of the transaction with the partner in Greece).

Expenses
Operating expenses consisted primarily of costs relating to management fees to DDM Group AG, audit, legal and accounting services, salary costs and office rent expense.

Net financial expenses
In 2018 net financial expenses were EUR 17,865k (2017: EUR 9,084k).

Cash flow and investments
Cash flow from operating activities before working capital changes for the full year amounted to EUR 45,308k (2017: EUR 22,022k).

Research and Development
DDM Debt is not engaged in any research and development activities.

Financing
Please refer to the “Significant events during the financial year” section for details regarding the new financing agreements during the year.

At 31 December 2018 net debt, consisting of the EUR 85M and EUR 50M senior secured bonds and interest-bearing intercompany loans (excluding subordinated debt), less cash and cash equivalents, amounted to EUR 75,959k. Shareholders’ equity according to the terms and conditions of the senior secured bonds amounted to EUR 40,036k.

At 31 December 2017 net debt, consisting of the EUR 85M and EUR 50M senior secured bonds and interest-bearing intercompany loans (excluding subordinated debt), less cash and cash equivalents, amounted to EUR 74,469k. Shareholders’ equity according to the terms and conditions of the senior secured bonds amounted to EUR 34,849k.

Non-financial earnings indicators
DDM Debt’s role in society
The Company offers a platform for economic growth by giving companies and banks the opportunity to manage their credit exposure. DDM Debt systems and understanding of creditor’s requirements are optimized and are paired with respect for debtors and their integrity.

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

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

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

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 the DDM Debt Group are currently the Balkans and Greece. The Group expects 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.

The DDM Debt Group aims to deliver sizeable and profitable growth in 2019, as it continues to focus on its markets in Southeast, Central and Eastern Europe where the Group has strong market knowledge and relationships.

Board work

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

Parent Company

The operations of the Parent Company encompass ownership of the subsidiaries, DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest V d.o.o. (formerly Ahive d.o.o.), DDM Invest VII AG, DDM Invest X AG, DDM Invest XX AG, DDM Invest VII d.o.o., DDM Debt Management d.o.o Beograd and DDM Debt Romania S.R.L, and providing funding for the subsidiaries' investments into distressed asset portfolios and other long-term receivables from investments through the issuance of financial instruments. The funding is provided by intercompany loans.

The Parent Company reported revenue of EUR 0k for the year (2017: EUR 0k), income from participation in Group companies of EUR 0k (2017: EUR 2,500k) and a profit before tax of 42k (2017: 2,565k).

The Parent Company had no employees in 2018 (2017: one employee male).

Events 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, the ultimate parent company of DDM Debt 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, the DDM Debt 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, the DDM Debt 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.

The Company successfully reached an agreement in March 2019 for a super senior revolving credit facility of EUR 27M with an international bank and 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.

Financial summary

Key figures, EUR '000s (unless otherwise indicated)	**2018**	**2017**
Revenue on invested assets	27,757	17,610
Operating profit	20,946	11,411
Operating margin, %	75.5	64.8
Cash flow from operating activities before working capital changes	45,308	22,022
Equity ratio (including subordinated debt), %	21.7	19.7

Risk management and financial risks

Risk management is handled by employees and management of the DDM Debt Group who report to the Board on the basis of the policy adopted by the Board. The DDM Debt Group identifies, evaluates and mitigates financial risks relating to the operating activities of the DDM Debt Group. 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 DDM Debt Group defines risk as all factors which could have a negative impact on the ability of the Group 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 DDM Debt Group's risk management is conducted by employees and management of the DDM Debt Group, where risks are evaluated in a systematic manner.

The following summary offers examples of risk factors which are considered to be especially important for the DDM Debt Group's future development but is by no means comprehensive. For further details regarding potential risk factors impacting the DDM Debt Group, please refer to the senior secured bonds prospectuses, which are available on our website.

Economic fluctuations

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

Changes in regulations
With regard to risks associated with changes in regulations in its markets, the DDM Debt Group 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 Debt 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 Debt Group's business.

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

In each country where the DDM Debt Group invests, revenue and collection costs are denominated in local currencies. Revenue and expenses in local currency are thereby hedged in a natural way, which limits transaction exposure. The DDM Debt Group is not using any hedging instruments. As part of cash management the DDM Debt Group is striving to maintain cash in the different currencies they are exposed to. For further information regarding currency exposure, see notes 14, 15 and 18.

Interest rate risks relate primarily to DDM Debt's interest-bearing debt, which during 2018 consisted of long-term senior secured bonds and a super senior revolving credit facility. Borrowings issued at fixed rates expose DDM Debt to fair value interest rate risk.

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

Credit risk
Credit risk is the risk that the counterparty in a financial transaction will not fulfil its obligations on the maturity date. Credit risk is managed by the DDM Debt Group 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 the DDM Debt Group's bank accounts, or are paid in to client fund accounts held by the respective debt collection agencies to separate the DDM Debt Group'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 the DDM Debt Group 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.

Risks inherent in distressed asset portfolios and other long-term receivables from investments
To minimize the risks in this business, caution is exercised in investment decisions. The DDM Debt Group 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. The DDM Debt Group has established relationships with sellers throughout the industry and as the DDM Debt Group is able to take on a leading position, we get repeat business as well as access to financial co-investors. Historically the DDM Debt Group 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.

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

Financing risk
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 Debt'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. DDM Debt AB complied with all bond covenants for the years ending 31 December 2018 and 31 December 2017. The terms and conditions are available in their entirety on our website.

For further information regarding the financial risk management of the DDM Debt Group, see note 4.

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 in January 2017.

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 Debt's financial reporting. The audit committee meets on a regular basis. The audit committee comprised Fredrik Waker (Chair) and Torgny Hellström. The committee's meetings are also attended by Fredrik Olsson (CFO). The committee held two meetings in 2018 (2017: two meetings). Special attention was paid in 2018 and 2017 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.

Corporate Governance Report
DDM Debt AB has established a corporate governance report in accordance with the Swedish Annual Accounts Act 6 chapter 8§. The report is available at the company, and will be distributed upon request.

Employees
DDM Debt had no employees as of 31 December 2018 (2017: one employee), while the DDM Debt Group had seven employees (2017: seven employees). All other staff involved in the activities of DDM Debt are employed by DDM Group AG and are based in Baar, Switzerland. DDM Group AG charges the DDM Debt Group a management fee for this work.

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

EUR '000s	**2018**	**2017**
Retained earnings	5,208	98
Received capital contribution	–	2,559
Net earnings for the year	44	2,551
Total	**5,252**	**5,208**

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

EUR '000s	**2018**	**2017**
Balance carried forward	5,252	5,208
Total	**5,252**	**5,208**

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

GROUP
CONSOLIDATED INCOME STATEMENT

For the year ended 31 December **Amounts in EUR '000s**	**Notes**	**2018**	**2017**
Revenue on invested assets	6	**27,757**	**17,610**
Personnel expenses	7	(144)	(122)
Consulting expenses	8	(6,304)	(5,843)
Other operating expenses	9	(361)	(234)
Depreciation of tangible assets		(2)	–
Operating profit		**20,946**	**11,411**
Financial income	10	220	191
Financial expenses	10	(17,634)	(9,914)
Unrealized exchange (loss)/profit	10	(328)	1,023
Realized exchange loss	10	(123)	(384)
Net financial expenses		**(17,865)**	**(9,084)**
Profit before income tax		**3,081**	**2,327**
Tax expense	11	(937)	(954)
Net profit for the year		**2,144**	**1,373**
Net profit for the year attributable to:			
Owners of the Parent Company		**2,144**	**1,373**
Earnings per share, EUR		**39.70**	**25.43**

GROUP
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December **Amounts in EUR '000s**	**Notes**	**2018**	**2017**
Net profit for the year		**2,144**	**1,373**
Other comprehensive income for the year			
Items that may subsequently be reclassified to profit or loss:			
Acquisition of subsidiaries under common control of DDM Holding AG	25	–	(1,481)
Currency translation differences		(4)	–
Other comprehensive income for the year, net of tax		**(4)**	**(1,481)**
Total comprehensive income for the year		**2,140**	**(108)**
Total comprehensive income for the year attributable to:			
Owners of the Parent Company		**2,140**	**(108)**

GROUP
CONSOLIDATED BALANCE SHEET

As at 31 December Amounts in EUR '000s	Notes	2018	2017
ASSETS			
Non-current assets			
Tangible assets	12	9	7
Interests in associates	13	13	600
Distressed asset portfolios	14	113,943	105,547
Other long-term receivables from investments	15	2,422	4,963
Loans to other group companies	24	2,000	2,000
Accrued interest from other group companies	24	411	191
Deferred tax assets	16	436	837
Other non-current assets	17	107	116
Total non-current assets		**119,341**	**114,261**
Current assets			
Accounts receivable	18	7,279	4,994
Receivables from other group companies	18	422	–
Other receivables	18	374	18
Prepaid expenses and accrued income	18	37	197
Cash and cash equivalents	19	57,266	57,697
Total current assets		**65,378**	**62,906**
TOTAL ASSETS		**184,719**	**177,167**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	20	54	54
Other reserves		(4)	–
Retained earnings including net profit for the year		8,811	6,667
Total shareholders' equity attributable to Parent Company's shareholders		**8,861**	**6,721**
Non-current liabilities			
Bond loan	21, 22	133,225	132,166
Payables to other group companies	24	1,433	2,075
Payables to other group companies, subordinated	24	1,775	–
Loans from other group companies, subordinated	24	19,400	18,128
Deferred tax liabilities	16	250	490
Total non-current liabilities		**156,083**	**152,859**
Current liabilities			
Accounts payable	23	448	298
Tax liabilities	23	2,190	745
Accrued interest	23, 24	5,165	3,992
Accrued expenses and deferred income	23	1,972	2,552
Loans from other group companies, subordinated	23, 24	10,000	10,000
Total current liabilities		**19,775**	**17,587**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**184,719**	**177,167**

GROUP
CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December Amounts in EUR ‘000s	**Notes**	**2018**	**2017**
Cash flow from operating activities			
Operating profit		20,946	11,411
Adjustments for non-cash items:			
Amortization of invested assets	*14, 15*	34,405	*17,489*
Revaluation and impairment of invested assets	*14, 15*	2,597	*(240)*
Depreciation of tangible assets	*12*	2	–
Other items not affecting cash		(184)	*(2,649)*
Interest paid		(12,395)	(3,964)
Tax paid		(63)	(25)
Cash flow from operating activities before working capital changes		**45,308**	**22,022**
Working capital adjustments			
(Increase) / decrease in accounts receivable		(2,285)	(2,398)
(Increase) / decrease in other receivables		40	(164)
Increase / (decrease) in accounts payable		150	(12)
Increase / (decrease) in other current liabilities		(1,183)	2,017
Net cash flow from operating activities		**42,030**	**21,465**
Cash flow from investing activities			
Purchases of distressed asset portfolios and other long-term receivables from investments	14, 15	(42,313)	(90,799)
Proceeds from divestment of distressed asset portfolios and other long-term receivables from investments	14, 15	–	13,570
Purchases of subsidiaries		–	(33,309)
Purchases of tangible assets	12	(4)	(7)
Net cash flow received / (used) in investing activities		**(42,337)**	**(110,545)**
Cash flow from financing activities			
Proceeds from issuance of loans	21, 22	–	148,212
Proceeds from loans from group companies	24	–	19,500
Repayment of loans	21, 22	–	(23,465)
Loans to other group companies	24	–	(2,000)
Net cash flow received / (used) in financing activities		–	**142,247**
Cash flow for the year		**(287)**	**53,167**
Cash and cash equivalents less bank overdrafts at beginning of the year		**57,697**	**3,739**
Effects from the acquisition of other group companies		–	910
Foreign exchange gains / (losses) on cash and cash equivalents		(144)	(119)
Cash and cash equivalents less bank overdrafts at end of the year	19	**57,266**	**57,697**

GROUP
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Amounts in EUR '000s	Share capital	Other reserves	Retained earnings incl. net profit for the year	Total equity
Balance at 1 January 2017	**54**	**–**	**4,216**	**4,270**
Comprehensive income				
Net profit for the year	–	–	1,373	**1,373**
Other comprehensive income				
Acquisition of subsidiaries under common control of DDM Holding AG	–	–	(1,481)	**(1,481)**
Total comprehensive income	**–**	**–**	**(108)**	**(108)**
Transactions with owners				
Received capital contribution	–	–	2,559	**2,559**
Total transactions with owners	**–**	**–**	**2,559**	**2,559**
Balance at 31 December 2017	**54**	**–**	**6,667**	**6,721**
Balance at 1 January 2018	**54**	**–**	**6,667**	**6,721**
Comprehensive income				
Net profit for the year	–	–	2,144	**2,144**
Other comprehensive income				
Currency translation differences	–	(4)	–	**(4)**
Total comprehensive income	**–**	**(4)**	**2,144**	**2,140**
Transactions with owners				
Total transactions with owners	**–**	**–**	**–**	**–**
Balance at 31 December 2018	**54**	**(4)**	**8,811**	**8,861**

PARENT COMPANY – INCOME STATEMENT

For the year ended 31 December Amounts in EUR '000s	Notes	2018	2017
Revenue		–	–
Personnel expenses	7	(24)	(7)
Consulting expenses	8	(172)	(65)
Other operating expenses	9	(92)	(83)
Operating loss		**(288)**	**(155)**
Income from participation in Group companies	24	–	2,500
Financial income	10, 24	14,973	7,728
Financial expenses	10, 24	(14,641)	(7,496)
Unrealized exchange loss	10	(2)	(44)
Realized exchange profit	10	–	32
Net financial income		**330**	**220**
Profit before income tax		**42**	**2,565**
Tax income / (expense)	11	2	(14)
Net profit for the year		**44**	**2,551**

PARENT COMPANY – STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December Amounts in EUR '000s	2018	2017
Net profit for the year	**44**	**2,551**
Other comprehensive income for the year		
Items that will not be reclassified to profit or loss	–	–
Items that may subsequently be reclassified to profit or loss	–	–
Total other comprehensive income for the year, net of tax	–	–
Total comprehensive income for the year	**44**	**2,551**

PARENT COMPANY – BALANCE SHEET

As at 31 December Amounts in EUR '000s	Notes	2018	2017
ASSETS			
Non-current assets			
Participations in other group companies	25	9,478	9,284
Loans to other group companies	24	150,123	98,809
Accrued interest from other group companies	24	411	191
Other non-current assets		–	5
Total non-current assets		**160,012**	**108,289**
Current assets			
Receivables from other group companies	24	–	3,197
Other receivables		16	–
Prepaid expenses and accrued interest income	24	6,030	3,762
Cash and cash equivalents	19	707	48,753
Total current assets		**6,753**	**55,712**
TOTAL ASSETS		**166,765**	**164,001**
SHAREHOLDERS' EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	20	54	54
Retained earnings including net profit for the year	26	5,252	5,208
Total shareholders' equity		**5,306**	**5,262**
Non-current liabilities			
Bond loan	21	133,225	132,166
Payables to other group companies	24	5,316	5,482
Loans from other group companies	24	7,000	7,000
Total non-current liabilities		**145,541**	**144,648**
Current liabilities			
Accounts payable	23	102	7
Payables to other group companies	23, 24	–	91
Tax liabilities	23	13	14
Accrued interest	23	5,734	3,828
Accrued expenses and deferred income	23	69	151
Loans from other group companies, subordinated	23, 24	10,000	10,000
Total current liabilities		**15,918**	**14,091**
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES		**166,765**	**164,001**

PARENT COMPANY – CASH FLOW STATEMENT

For the year ended 31 December Amounts in EUR '000s	Notes	2018	2017
Cash flow from operating activities			
Operating loss		(288)	(155)
Other items not affecting cash		(116)	84
Interest paid		(12,395)	(3,672)
Interest received		11,924	334
Cash flow from operating activities before working capital changes		**(875)**	**(3,409)**
Working capital adjustments			
(Increase) / decrease in other receivables		800	–
Increase / (decrease) in accounts payable		95	(76)
Increase / (decrease) in other current liabilities		(173)	186
Net cash flow from operating activities		**(153)**	**(3,299)**
Cash flow from investing activities			
Loans to group companies		(59,500)	(64,760)
Repayment of loans to group companies		8,696	7,558
Dividends received		2,500	–
Purchases of subsidiaries		(106)	(33,309)
Purchase of shares in subsidiaries		(88)	–
Net cash flow received / (used) in investing activities		**(48,498)**	**(90,511)**
Cash flow from financing activities			
Proceeds from issuance of loans	21, 22	–	148,212
Proceeds from loans from group companies	24	–	17,000
Proceeds from payables to other group companies	24	600	–
Repayment of loans	21, 22	–	(23,465)
Loans to other group companies	24	–	(2,000)
Net cash flow received / (used) in financing activities		**600**	**139,747**
Cash flow for the year		**(48,051)**	**45,937**
Cash and cash equivalents less bank overdrafts at beginning of the year		**48,753**	**2,816**
Foreign exchange gains / (losses) on cash and cash equivalents		5	–
Cash and cash equivalents less bank overdrafts at end of the year		**707**	**48,753**

PARENT COMPANY – STATEMENT OF CHANGES IN EQUITY

Amounts in EUR '000s	Share capital	Retained earnings incl. net profit for the year	Total equity
Balance at 1 January 2017	**54**	**98**	**152**
Comprehensive income			
Net profit for the year	–	2,551	**2,551**
Other comprehensive income	**–**	**–**	**–**
Total comprehensive income	**–**	**2,551**	**2,551**
Transactions with owners			
Received capital contribution	–	2,559	**2,559**
Total transactions with owners	**–**	**2,559**	**2,559**
Balance at 31 December 2017	**54**	**5,208**	**5,262**
Balance at 1 January 2018	**54**	**5,208**	**5,262**
Comprehensive income			
Net profit for the year	–	44	**44**
Other comprehensive income			
Total comprehensive income	**–**	**44**	**44**
Transactions with owners			
Total transactions with owners	**–**	**–**	**–**
Balance at 31 December 2018	**54**	**5,252**	**5,306**

At 31 December 2018 and 31 December 2017 the number of outstanding shares in DDM Debt AB amounts to 54,000 shares, with a quota of 1 per share.

NOTE 1. GENERAL INFORMATION

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

The Company was registered on 3 March 2016, and changed from a private limited liability company to a public limited liability company on 26 May 2016. DDM Debt is a wholly owned subsidiary of DDM Finance AB, Stockholm, Sweden, being a wholly owned subsidiary of DDM Group AG, Baar, Switzerland. In 2016 DDM Invest VII AG, Switzerland, and DDM Invest VII d.o.o., Slovenia, were wholly owned subsidiaries of DDM Debt. In connection with the bond refinancing in Q1 2017, DDM Debt AB also acquired DDM Treasury Sweden AB's subsidiaries (DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest X AG and DDM Invest XX AG) holding the NPL portfolios on 17 February 2017. They are wholly owned subsidiaries, therefore this acquisition was not considered as a business combination according to IFRS 3, as the transaction was done in the ordinary course of business among entities which are under common control of DDM Holding AG. A new subsidiary of DDM Debt AB, DDM Debt Management d.o.o Beograd, was incorporated in Serbia on 22 August 2017 and DDM Debt Romania S.R.L was incorporated in Romania on 31 July 2018. DDM Invest V d.o.o. (formerly Ahive d.o.o.) is a 100% indirectly held subsidiary through DDM Invest I AG that was incorporated in Slovenia on 22 October 2018.

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

The Parent Company, DDM Debt AB (publ) is a limited liability company with registered offices in Stockholm, Sweden and its Swedish Corporate ID No. is 559053-6230. The address of the main office and postal address is Västra Trädgårdsgatan 15, 111 53 Stockholm, Sweden.

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

On 28 March 2019, the Board of Directors approved the financial statements for publication.

NOTE 2. BASIS OF PREPARATION

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

The consolidated financial statements have been prepared on the basis of historical cost modified with the revaluation of financial assets and financial liabilities at fair value through profit or loss. Distressed asset portfolios, 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 applied in these consolidated financial statements are presented as follows:

The preparation of financial statements in conjunction with IFRS requires the application of certain important estimates for accounting purposes. Furthermore, it is required that management undertakes a number of assessments as regards to the application of the Group's accounting policies. Areas involving a high degree of assessment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are referred to in note 5.

The accounts of DDM Debt AB have been prepared in accordance with the Annual Accounts Act (ÅRL 1995:1554) and RFR 2 Accounting for Legal Entities and applicable statements. The instances in which the Parent Company applies accounting principles differing from those of the Group are provided separately at the end of this section on accounting principles.

Consolidation

The financial statements consolidate the accounts of DDM Debt AB and its subsidiaries.

Subsidiaries

Subsidiaries are all entities over which DDM Debt AB has control. DDM Debt AB 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.

The following entities are included in the scope of consolidation:

NOTE 3. SUMMARY OF SIGNIFICANT… continued

Entities included in the scope of consolidation	Consolidation method	Domicile	31 Dec 2018	31 Dec 2017
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 Invest VII d.o.o.	Fully consolidated	Slovenia	100%	100%
DDM Invest V d.o.o.	Fully consolidated	Slovenia	100%	–
DDM Debt Management d.o.o Beograd	Fully consolidated	Serbia	100%	100%
DDM Debt Romania S.R.L	Fully consolidated	Romania	100%	–

Associates

Associates are all entities over which the DDM Debt Group has significant influence but not control or joint 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	Corporate identity number	Consol-idation method	Domicile	31 Dec 2018	31 Dec 2017
Profinance doo Beograd	20298928	Equity accounted	Serbia	–	49.67%
CE Partner S.a.r.l.	B230176	Equity accounted	Luxembourg	50.00%	–
CE Holding Invest S.C.S	B230358	Equity accounted	Luxembourg	49.99%	–

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

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

Transactions with shareholders without any controlling influence

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

Common control

The acquisition of DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest X AG and DDM Invest XX AG by DDM Debt AB in 2017 was a transaction under common control and did not meet the definition of a business combination according to IFRS 3 as the transaction was done in the ordinary course of business among entities which are under common control of DDM Holding AG.

In DDM Debt's consolidated financial statements the assets and liabilities of DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest X AG and DDM Invest XX AG were incorporated at their fair value. The consolidated financial statements for 2017 include DDM Invest VII AG and DDM Invest VII d.o.o.'s full year results and DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest X AG and DDM Invest XX AG's results from 17 February 2017. The following subsidiaries are included in the consolidated financial statements from its date of incorporation, DDM Debt Management d.o.o. Beograd on 22 August 2017, DDM Debt Romania S.R.L on 31 July 2018 and DDM Invest V d.o.o. on 22 October 2018.

Segment reporting

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

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the DDM Debt Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of DDM Debt AB 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 Debt Group have EUR as their functional currency except for DDM Debt Management doo Beograd which has Serbian

NOTE 3. SUMMARY OF SIGNIFICANT… continued

Dinar (RSD) as its functional currency, and DDM Debt Romania S.R.L, which has Romanian leu (RON) as its functional currency.

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 19.

Financial instruments
IFRS 9 "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The 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 DDM Debt 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.

Financial assets at amortised cost that are considered to have low credit risk, the impairment provision applied is to recognise 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. Refer to the table showing a comparison of the measurement of the Group's financial liabilities according to IAS 39 and IFRS 9.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. As the DDM Debt Group does not currently apply hedge accounting there is no impact to the Company.

(ii) Application of changes in accounting policies
The DDM Debt Group's business model is to invest in distressed assets and collect the contractual cash flows. The invested assets only consist of cash flow payments of principal and interest (solely payments of principal and interest, "SPPI"). In exceptional cases, portfolios might be sold (e.g. exit of a market, significant increase in a risk of default, etc.), and would therefore have to be assessed on a case by case basis and, if applicable, treated differently. Therefore 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.

NOTE 3. ***SUMMARY OF SIGNIFICANT…*** *continued*

The table below shows a comparison of the measurement of the DDM Debt Group'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

The DDM Debt Group classifies its financial instruments as follows and depends on the purpose for which the financial assets or liabilities were acquired:

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 DDM Debt Group's financial assets carried at amortized cost comprise trade receivables and cash and cash equivalents and are included in current assets due to their short-term nature. Financial assets carried at amortized cost are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

Recognition and measurement

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

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

All financial assets and liabilities are presented as gross amounts in the DDM Debt Group and the Parent Company's financials, and therefore offsetting of financial assets and liabilities has not been disclosed.

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 (ICR model) stipulated in IAS 39. The ECL model under IFRS 9 has not had an additional direct impact on DDM Debt Group's invested assets. Distressed asset portfolios and other long-term receivables from investments are considered credit-impared under IFRS 9, as such the Company estimates the recoveries of the cashflows to include lifetime expected credit losses are included in the estimated cash flows when calculating the effective interest rate on initial recognition of such assets. The Company has elected to apply 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 cashflow 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.

The Company quantifies expected credit losses as follows:

Financial assets carried at amortized cost

The loss is the difference between the amortized cost of the asset and the present value of the estimated future cash flows discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

For trade receivables, the Company applies the simplified approach permitted under IFRS 9, which requires expected lifetime credit losses to be recognized from initial recognition of the receivables. This has resulted in an additional EUR 2k of expected credit losses relating to trade receivables as these continue to be recognised under amortised cost.

Accounts receivable

Accounts receivable are reported initially at fair value and are subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of accounts receivable is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties on behalf of the debtor, the probability that the debtor will enter into bankruptcy or financial reorganization, and default or delinquency in payments are considered indications that the account receivable is

NOTE 3. SUMMARY OF SIGNIFICANT… continued

impaired. The amount of the provision is the difference between the asset's book value and the present value of estimated future cash flows, discounted at the original effective interest rate. Both losses regarding accounts receivable and recoveries of accounts receivable previously written off are reported in the line 'Revenue on invested assets' in the income statement. The book value of accounts receivable, after any impairment, is presumed to correspond to their fair value, as this item is of a short-term nature.

Distressed asset portfolios and other long-term receivables from investments
The DDM Debt Group 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.

In connection with the bond refinancing in Q1 2017, DDM Debt AB acquired DDM Treasury Sweden AB's subsidiaries holding the NPL portfolios, including the other long-term receivables from investments detailed below.

Other long-term receivables from investments
DDM Group AG owns 100% of the shares in the local legal entities holding the leasing portfolios. However, the economic substance of the investments are the underlying portfolios of loans, which the DDM Debt Group owns together with a co-investor. As a result, the underlying assets which represent other long-term receivables from investments are recognized in the DDM Debt Group 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.

The following investments are treated in this manner:

Entity	Domicile	31 Dec 2018	31 Dec 2017
Lombard Pénzügyi és Lízing Zrt.	Hungary	100%	100%
Lombard Ingatlan Lízing Zrt.	Hungary	100%	100%
Lombard Bérlet Kft.	Hungary	100%	100%

Distressed asset portfolios and other long-term receivables from investments
The recognition of the acquisition of distressed asset portfolios and other long-term receivables from investments is based on the DDM Debt Group's forecast of future cash flows from acquired portfolios / receivables. Distressed asset portfolios and other long-term receivables from investments consist mainly of portfolios of non-performing consumer debts purchased at prices significantly below their principal value. Such assets are classified as non-current assets. Reporting follows the effective interest method, where the carrying value of each portfolio / receivable corresponds to the present value of all projected future cash flows discounted by an initial effective interest rate determined on the date the portfolio / receivable was acquired, based on the relation between cost and the projected future cash flows on the acquisition date. Changes in the carrying value of the portfolios / receivables are reported as amortization, 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, 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 6 for further information.

Distressed asset portfolios and other long-term receivables from investments are reported at amortized cost using the effective interest method. The initial effective interest rate is calculated for each portfolio / receivable based on its purchase price including transaction costs and estimated cash flows that, based on a probability assessment, are expected to be received from the debtors of the corresponding portfolio net of collection costs.

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 DDM Debt Group 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.

NOTE 3. SUMMARY OF SIGNIFICANT… continued

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

Furniture	5 years
Computer hardware	5 years

The DDM Debt Group 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 depreciation 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”).

Tangible 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”). Impairment and gains and losses recognized in connection with disposals of tangible assets are included among administration expenses (within the line “other operating expenses”).

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.

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

Accounts payable
Accounts payable are reported at fair value. The book value of an accounts payable is expected to correspond with the fair value of the account payable, as this item is of a short-term nature.

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

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

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

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

Current tax 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 6). Revenue from management fees relates to revenue received from co-investors where the DDM Debt Group 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.

*NOTE 3. **SUMMARY OF SIGNIFICANT…** continued*

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, based on the performance of the corresponding portfolio. The fees are received on a on a quarterly basis in arrears.

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

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

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

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

No dividends will be proposed to the 2019 annual general meeting regarding the operations for 2018.

Accounting standards and amendments issued and adopted in 2018
The DDM Debt 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 impact on the DDM Debt 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 these are immaterial for the DDM Debt Group, and revenue is already recognized based on the satisfaction of performance obligations.
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, introduced new rules for hedge accounting 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.

The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through the income statement with the irrevocable option at inception to present changes in fair value in other comprehensive income not recycling.

Application of the business model and SPPI
Purchased loan portfolios are the primary business activity of the Company and consist of portfolios of non-performing loans, purchased at prices significantly below the nominal receivable with the intention that these receivables are collected on a contractual basis to maturity. These portfolios are determined to meet the criteria for a business model of Hold to collect and that the contractual cash flows are collected at specified time points and consist solely of payments of principal and interest (SPPI), therefore the classification under IFRS 9 is amortised cost. Management performed a detailed analysis and reviewed the portfolio cash flows, collection methods, and strategies as well as the infrequency of sales of individual receivables claims in the process of coming to a classification decision. It is management's conclusion that the IFRS 9 criteria for a business model of Hold to collect and the SPPI criteria are satisfied for these portfolios. Purchased loan portfolios will continue to be measured at amortised cost using the effective interest method in accordance with the rules for credit-impaired at acquisition financial assets as set out in IFRS 9.

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.

NOTE 3. SUMMARY OF SIGNIFICANT… continued

Due to the characteristics of the Group's portfolio investments they are classified as purchase or originated credit impaired on initial recognition (POCI). ECL is not recognised on initial recognition. Instead, lifetime ECL is incorporated into the calculation of the effective interest rate. Any changes in lifetime ECL after initial recognition are recognised in profit or loss. ECL calculation for POCI assets is always based on an ECL over the expected life of the asset. The estimation of ECL's includes an assessment of forward-looking economic assumptions which are determined on a probability-weighted basis based on reasonable and supportable forecasts. The Group leverages off its existing cash flow models to inform these ECLs. These scenarios are probability weighted according to their likely occurrence. The scenarios include a central scenario, based on the current economic environment, and upside and downside scenarios. The estimation and application of this forward-looking information requires significant judgment and is subject to appropriate internal governance and scrutiny.

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

The DDM Debt Group's business model is to invest in distressed assets and collect the contractual cash flows. These contractual cash flows represent solely payments of principal and interest (the "SPPI"). Even in instances where the Group acquires portfolios containing collateralized assets, the DDM Debt Group's intention is to reach a settlement with debtors rather than liquidating the collateral, and therefore even portfolios of collateralized assets does pass the SPPI-test.

DDM Debt Group therefore concluded that IFRS 9's changes to classification and measurement of financial instruments had no impact on the recognition and valuation of the invested assets it held at 1 January 2018, as it continued to value its invested assets at amortized cost. Therefore the adoption of IFRS 9 had no impact on DDM Debt Group's accounting treatment for invested assets. Going forward, in rare circumstances it might be the case that certain assets will fail the SPPI-test, and investments will therefore have to be assessed on a case by case basis and, if applicable, treated differently.

DDM Debt Group concluded that the ECL model had no additional direct impact on the invested assets it held at 1 January 2018, as the Group did not have any invested assets which were not distressed at initial recognition, and therefore the lifetime ECLs were included in the estimated cash flows when calculating the effective interest rate on initial recognition of such assets. A significant increase in the credit risk would result in a revaluation and/or impairment of the invested asset, which is the recognition of the additional expected credit loss. Therefore there was no impact on the income statement upon initial adoption of IFRS 9. Conversely, the ECL model will be fully applicable for any invested assets acquired in the future which are not distressed at initial recognition, which could result in the day one fair value not reflecting the lifetime credit losses.

The on-going provision for the expected credit losses for lifetime allowances would have a potential negative impact on the income statement in future periods. Going forward, the DDM Debt Group will need to assess each new investment on a case by case basis.
Effective date: 1 January 2018.

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, the DDM Debt Group expects the impact of IFRS 16 on the balance sheet to not result any recognition of a right-of-use asset or corresponding lease liability. As a result no 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.

Parent Company accounting principles

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

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

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

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

NOTE 3. SUMMARY OF SIGNIFICANT… continued

Definitions of key ratios

Applied in the "Financial summary" in the administration report

Operating margin, %: Operating profit as a percentage of revenue on invested assets.

Equity ratio, %: Equity (including subordinated debt according to the senior secured bond terms and conditions) as a percentage of total assets.

NOTE 4. FINANCIAL RISK MANAGEMENT

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

Risk management is carried out by the DDM Debt Group in accordance with policies established by the Board of Directors. The DDM Debt Group identifies, evaluates and mitigates financial risks in close co-operation with DDM Debt's CEO and Board of Directors. The Board provides a comprehensive financial policy for risk management, specified into separate sections for the various areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk and financing risk. The Group does not apply so-called hedge accounting in accordance with the regulations in IFRS 9.

The DDM Debt Group defines risk as all factors which could have a negative impact on the ability of the Group 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 DDM Debt Group's future development, but is by no means comprehensive.

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.

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 Debt 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 Debt Group's business.

Market risk

Foreign exchange risk

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

Translation exposure

When the balance sheet positions denominated in foreign currencies are recalculated to the DDM Debt Group's functional currency, a translation exposure arises that affects investor value.

Transaction exposure

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

In terms of currency risk, the DDM Debt Group's operations are characterized by collections and collection costs mainly performed in local currency in the respective countries. The DDM Debt Group does not use any hedging instruments. As part of cash management the DDM Debt Group is striving to maintain cash in the different currencies they are exposed to. See also notes 14, 15 and 18 regarding currencies and foreign exchange risks.

Cash flow and fair value interest rate risks

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

Credit risks inherent of distressed assets

The credit risk is considered upon the acquisition of a financial asset by assessing the expected return. The DDM Debt Group 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 DDM Debt Group'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 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 following tables:

NOTE 4. FINANCIAL RISK… ***continued***

Group EUR '000s	At 31 December 2018
Cash and cash equivalents	57,266
Accounts receivable	7,279
Distressed asset portfolios	113,943
Other long-term receivables from investments	2,422
Total	**180,910**

Group EUR '000s	At 31 December 2017
Cash and cash equivalents	57,697
Accounts receivable	4,994
Distressed asset portfolios	105,547
Other long-term receivables from investments	4,963
Total	**173,201**

At 31 December 2018 the majority of the DDM Debt Group bank accounts were held with banks with credit ratings ranging from AA- to BB as rated by Standard and Poor's. At 31 December 2017 the majority of the DDM Debt 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 the DDM Debt Group.

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 issued in 2017 (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).

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 by the DDM Debt Group and arises from cash and cash equivalents, and deposits with banks and financial institutions.

Another source of credit risk arises in connection to funds collected during the ordinary course of business. Funds are either collected directly on the DDM Debt Group's bank accounts, or are paid in to client fund accounts held by the respective debt collection agencies to separate the DDM Debt Group'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 the DDM Debt Group 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.

Liquidity risk / Financing risk

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

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

Group EUR '000s	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years
At 31 December 2018				
Borrowings	12,075	143,038	–	–
Payables to other group companies, subordinated	–	–	–	1,775
Loans from other group companies, subordinated	–	–	–	31,900
Accounts payable	448	–	–	–
Tax liabilities	2,190	–	–	–
Accrued expenses	1,972	–	–	–
Loan from other group companies, subordinated	12,578	–	–	–
Total	**29,263**	**143,038**	–	**33,675**

Parent Company EUR '000s	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years
At 31 December 2018				
Borrowings	12,075	143,038	–	–
Loans from other group companies	–	–	–	10,938
Payables to other group companies	–	–	–	5,316
Accounts payable	102	–	–	–
Tax liabilities	13	–	–	–
Accrued expenses	69	–	–	–
Loan from other group companies, subordinated	12,578	–	–	–
Total	**24,837**	**143,038**	–	**16,254**

NOTE 4. FINANCIAL RISK... *continued*

Group EUR '000s	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years
At 31 December 2017				
Borrowings	12,075	12,075	143,038	
Payables to other group companies	–	1,592	–	–
Loans from other group companies, subordinated	–	–	–	32,401
Accounts payable	298	–	–	–
Tax liabilities	745	–	–	–
Accrued expenses	2,552	–	–	–
Loan from other group companies, subordinated	11,130	–	–	–
Total	**26,800**	**13,667**	**143,038**	**32,401**

Parent Company EUR '000s	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 5 years
At 31 December 2017				
Borrowings	12,075	12,075	143,038	–
Loans from other group companies	–	–	–	10,938
Payables to other group companies	91	–	–	5,482
Accounts payable	7	–	–	–
Tax liabilities	14	–	–	–
Accrued expenses	151	–	–	–
Loan from other group companies, subordinated	11,130	–	–	–
Total	**23,468**	**12,075**	**143,038**	**16,420**

Financial instruments by category

Group EUR '000s	Financial assets held at amortized cost
At 31 December 2018	
Assets as per balance sheet	
Distressed asset portfolios	113,943
Other long-term receivables from investments	2,422
Loans to and accrued interest from other group companies	2,411
Other non-current assets	107
Trade and other receivables	7,653
Receivables from other group companies	422
Prepaid expenses and accrued income	37
Cash and cash equivalents	57,266
Total	**184,261**

Group EUR '000s	Other financial liabilities
At 31 December 2018	
Liabilities as per balance sheet	
Bond loans	133,225
Payables to other group companies	1,433
Payables to other group companies, subordinated	1,775
Loans from other group companies, subordinated	29,400
Accounts payable	448
Accrued interest	5,165
Accrued expenses and deferred income	1,972
Total	**173,418**

Group EUR '000s	Financial assets held at amortized cost
At 31 December 2017	
Assets as per balance sheet	
Distressed asset portfolios	105,547
Other long-term receivables from investments	4,963
Loans to and accrued interest from other group companies	2,191
Other non-current assets	116
Trade and other receivables	5,012
Receivables from other group companies	–
Prepaid expenses and accrued income	197
Cash and cash equivalents	57,697
Total	**175,723**

Group EUR '000s	Other financial liabilities
At 31 December 2017	
Liabilities as per balance sheet	
Bond loans	132,166
Payables to other group companies	2,075
Payables to other group companies, subordinated	–
Loans from other group companies, subordinated	28,128
Accounts payable	298
Accrued interest	3,992
Accrued expenses and deferred income	2,552
Total	**169,211**

Fair values

The DDM Debt Group considers there to be no material differences between the financial asset values in the consolidated balance sheet and their fair value. Invested assets are classified as financial assets held at amortized cost and recognized at amortized cost according to the effective interest rate method. The Group determines the carrying value by calculating the present value of estimated future cash flows at the invested assets' original

NOTE 4. FINANCIAL RISK… *continued*

effective interest rate. Adjustments are recognized in the income statement.

In the Group's opinion, the market's yield requirements in the form of effective interest rates on new invested assets have remained fairly constant, despite turbulence in global financial markets in recent years. With this valuation method, the carrying value is the best estimate of the fair value of invested assets. Please note that the table below is only intended to illustrate how the use of fair value could be presented. The DDM Debt Group reports their loans at amortized cost and the table below should only be considered from an illustrative perspective.

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:

Group EUR '000s	IFRS 9 category	Fair value category	31 Dec 2018
Assets	**Fair value and carrying value of financial instruments**		
Accounts receivable	Financial assets held at amortized cost	Level 2	7,279
Other receivables	Financial assets held at amortized cost	Level 2	374
Distressed asset portfolios	Financial assets held at amortized cost	Level 3	113,943
Other long-term receivables from investments	Financial assets held at amortized cost	Level 3	2,422
Liabilities	**Fair value and carrying value of financial instruments**		
Accounts payable	Financial liabilities held at amortized cost	Level 2	448
Other payables	Financial liabilities held at amortized cost	Level 2	10,760

Group EUR '000s	IFRS 9 category	Fair value category	31 Dec 2017
Assets	**Fair value and carrying value of financial instruments**		
Accounts receivable	Financial assets held at amortized cost	Level 2	4,994
Other receivables	Financial assets held at amortized cost	Level 2	18
Distressed asset portfolios	Financial assets held at amortized cost	Level 3	105,547
Other long-term receivables from investments	Financial assets held at amortized cost	Level 3	4,963
Liabilities	**Fair value and carrying value of financial instruments**		
Accounts payable	Financial liabilities held at amortized cost	Level 2	298
Other payables	Financial liabilities held at amortized cost	Level 2	7,772

Group 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 appropriate level is determined based on the lowest level of input that is essential for valuation at fair value.
The valuation technique for invested assets, as well as valuation sensitivity for changes in material data are described in the accounting principles and in note 5.

Management of capital risk

Similar to other companies in the industry, DDM Debt Group assesses its capital requirements on the basis of its equity / total assets ratio. For the purpose of calculating compliance with the covenant of the senior secured bonds, this ratio is calculated as adjusted equity divided by total assets. Adjusted equity includes subordinated debt (defined in IAS 32 as an instrument without a contractual obligation to deliver cash or other assets) and retained earnings.

EUR '000s	31 December 2018	31 December 2017
Total assets	**184,719**	**177,167**
Shareholder's equity	8,861	6,721
Shareholder debt (subordinated)	31,175	28,128
Adjusted equity	**40,036**	**34,849**
Adjusted equity / total assets ratio	**21.7%**	**19.7%**

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

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events deemed to be reasonable under the circumstances.

Furthermore, the decision to amend a cash flow projection is preceded by a discussion between operations and Company management. All changes in cash flow projections are ultimately decided on by the CEO and Board of Directors. Please also refer to our website for additional information on risk factors affecting the DDM Debt Group.

Critical accounting estimates and judgements

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

Revenue recognition and measurement of acquired portfolios 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 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 as revenue on invested assets, in the financial statements. The EIR is the rate that exactly discounts estimated future purchased portfolio cash receipts through the expected life of the purchased portfolio / receivable. The EIR is determined at the time of purchase of the portfolio / receivable. 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 Debt Group 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 portfolios/receivables are reviewed for any possible indications of impairment at the balance sheet date in accordance with IFRS 9. Where portfolios/receivables exhibit objective evidence of impairment, an adjustment is recorded to the carrying value. If the forecasted collections exceed initial estimates, an adjustment is recorded as an increase to the carrying value and is included in revenue on invested assets. The estimation of cash flow forecasts is a key estimation uncertainty fundamental within this critical accounting policy. Estimates of cash flows that determine the EIR are established for each purchased portfolio/receivable and are based on our 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 history 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 our distressed asset portfolios at a point in time.

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

See notes 14 and 15 for the carrying value of distressed asset portfolios and other long-term receivables from investments.

NOTE 6. RECONCILIATION OF REVENUE ON INVESTED ASSETS

Revenue on invested assets is the net amount of the cash collections (net of direct collection costs), amortization, revaluation and impairment of invested assets. Net collections includes management fees received from co-investors, as the DDM Debt Group manages the operations of these assets. These fees are considered to be immaterial and have therefore not been disclosed separately.

Net collections is comprised of gross collections from the distressed asset portfolios and other long-term receivables held by the DDM Debt Group, minus commission and fees to third parties. As the collection procedure is outsourced, the net amount of cash collected is recorded as “Net collections” within the line “Revenue on invested assets” in the consolidated income statement. The DDM Debt Group discloses the alternative performance measure “Net collections” in the notes separately, as it is an important measurement for the DDM Debt Group to monitor the performance of the portfolios and measure the cash available for operating expenses and to service its debt. The DDM Debt Group believes that disclosing net collections as a separate performance measure in the notes improves the transparency and understanding of the DDM Debt Group'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.

Net collections by country EUR ‘000s	1 Jan – 31 Dec 2018
Slovenia	20,277
Greece	13,962
Czech Republic	12,576
Croatia	9,038
Romania	4,069
Hungary	3,789
Serbia	699
Slovakia	193
Russia	86
Bosnia	70
Net collections	**64,759**
Amortization of invested assets	(34,405)
Interest income on invested assets before revaluation and impairment	**30,354**
Revaluation of invested assets	(152)
Impairment of invested assets	(2,445)
Revenue on invested assets	**27,757**

Net collections by country EUR ‘000s	1 Jan – 31 Dec 2017
Slovenia	10,564
Hungary	6,934
Czech Republic	6,650
Romania	4,536
Croatia	3,592
Greece	1,958
Slovakia	343
Russia	171
Serbia	111
Net collections	**34,859**
Amortization of invested assets	(17,489)
Interest income on invested assets before revaluation and impairment	**17,370**
Revaluation of invested assets	806
Impairment of invested assets	(566)
Revenue on invested assets	**17,610**

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

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

No individual debtor generates more than 10% of the DDM Debt Group’s total revenues.

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

Impairment of invested assets by country EUR ‘000s	2018	2017
Croatia	1,788	–
Slovenia	664	–
Russia	(7)	566
Impairment of invested assets	**2,445**	**566**

The table below presents an overview of the carrying value of invested assets by country:

EUR ‘000s	31 December 2018	31 December 2017
Greece	35,626	37,712
Croatia	33,761	27,368
Slovenia	22,085	11,346
Czech Republic	14,878	19,595
Romania	4,399	6,459
Hungary	2,423	4,963
Serbia	2,116	2,417
Bosnia	834	–
Russia	195	329
Slovakia	48	321
Total	**116,365**	**110,510**

NOTE 7. PERSONNEL EXPENSES

The Parent Company and its subsidiaries had seven employees at 31 December 2018 (2017: seven employees). Personnel expenses were EUR 144k (2017: EUR 122k). The gender distribution at 31 December 2018 was 71% male, 29% female (2017: 71% male, 29% female). The average age of the employees is 36 years (2017: 33).

Gender distribution of board members and other senior executives
The Board of Directors consists of three members (male) (2017: six (male)). DDM Debt AB has one managing director (male) (2017: one (male)).

The Board of Directors and managing director are also board members and executives of DDM Debt AB's ultimate parent company, DDM Holding AG. Their remuneration for their services provided to the DDM Holding Group is paid by entities outside of the DDM Debt Group. The DDM Debt Group is charged a management fee for these services, in line with the terms and conditions of DDM Debt AB's senior secured bonds.

NOTE 8. CONSULTING EXPENSES

Group EUR '000s	2018	2017
Consultancy fees	104	160
PwC		
Audit assignments	200	114
Tax assignments	–	5
DDM Group management fees	6,000	5,564
Total	**6,304**	**5,843**

Parent Company EUR '000s	2018	2017
Consultancy fees	70	41
Öhrlings PwC		
Audit assignments	102	24
Total	**172**	**65**

DDM Debt AB also paid EUR 0k to PwC in 2018 (EUR 17k in 2017) for tax assignments, which were capitalized as part of transaction costs for the senior secured bonds and are amortized to the income statement (see note 2 for details).

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

NOTE 9. OTHER OPERATING EXPENSES

Group EUR '000s	2018	2017
Non-deductible VAT	234	154
Rental expenses	74	25
Other operating expenses	53	55
Total	**361**	**234**

Parent Company EUR '000s	2018	2017
Non-deductible VAT	43	71
Rental expenses	36	8
Other operating expenses	13	4
Total	**92**	**83**

NOTE 10. NET FINANCIAL EXPENSES

Group EUR '000s	2018	2017
Financial income		
Interest income	220	191
Total financial income	**220**	**191**
Financial expenses		
Interest expense	15,949	9,002
Amortization of transaction costs	1,133	885
Impairment of interest in associates	480	–
Bank charges	72	26
Other financial expenses	–	1
Realized exchange losses	123	384
Unrealized exchange losses / (gains)	328	(1,023)
Total financial expenses	**18,085**	**9,275**
Net financial expenses	**17,865**	**9,084**

The increase in interest expense compared to 2017 is explained in note 20.

NOTE 10. NET FINANCIAL… *continued*

Parent EUR '000s	2018	2017
Financial income		
Interest income	14,973	7,728
Total financial income	**14,973**	**7,728**
Financial expenses		
Interest expense	14,609	7,492
Amortization of transaction costs	27	–
Bank charges	4	4
Other financial expenses	1	–
Realized exchange gains / (losses)	–	(32)
Unrealized exchange (gains) / losses	2	44
Total financial expenses	**14,643**	**7,508**
Net financial income	**330**	**220**

NOTE 11. INCOME TAX EXPENSE

Group EUR '000s	2018	2017
Current tax on profit for the year	776	375
Movement in deferred tax assets	401	320
Movement in deferred tax liabilities	(240)	259
Total tax expense	**937**	**954**

Parent Company EUR	2018	2017
Current tax on profit for the year	2	(14)
Total tax expense	**2**	**(14)**

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

Group EUR '000s	2018	2017
Profit before tax	3,081	2,327
Tax calculated at 12.2% (Swiss) tax rate (prior year 14.5%)	376	337
Movement in deferred tax assets	712	320
Movement in deferred tax liabilities	(375)	259
Effects of foreign tax rates	45	12
Adjustments for previous years and other	179	26
Total tax expense	**937**	**954**

Parent Company EUR '000s	2018	2017
Profit before tax	42	2,565
Tax calculated at 22% (Swedish) tax rate (prior year 22%)	(9)	(564)
Non-taxable income	–	550
Adjustment for previous year and other	11	–
Total tax expense	**2**	**(14)**

The Group's effective tax rate was 30.4% at 31 December 2018 (41.0% at 31 December 2017). The decrease in the Group's effective tax rate in 2018 is driven by Management's decision in the prior year to adjust 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.

There was no tax related to items of other comprehensive income.

NOTE 12. TANGIBLE ASSETS

Group EUR '000s	Furniture	Computer hardware	Total
Year ended 31 December 2018			
At 1 January 2018	**1**	**6**	**7**
Additions	4	–	4
Disposals	–	–	–
Depreciation	(1)	(1)	(2)
Impairment	–	–	–
At 31 December 2018	**4**	**5**	**9**
At cost	5	6	11
Accumulated depreciation	(1)	(1)	(2)
Net book value at 31 December 2018	**4**	**5**	**9**
Year ended 31 December 2017			
At 1 January 2017	**–**	**–**	**–**
Additions	1	6	7
Disposals	–	–	–
Depreciation	–	–	–
Impairment	–	–	–
At 31 December 2017	**1**	**6**	**7**
At cost	**1**	**6**	**7**
Accumulated depreciation	–	–	–
Net book value at 31 December 2017	**1**	**6**	**7**

NOTE 13. INTERESTS IN ASSOCIATES

Set out below are the associates of the DDM Debt Group as at 31 December 2018 and 31 December 2017 which are material to the Group. The entities listed have share capital consisting solely of ordinary shares, which are held directly by the DDM Debt 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.

Interests in associates are as follows:

Name of entity	Corporate identity number	Domicile	% of ownership interest 2018	2017	Nature of relationship
Profinance doo Beograd	20298928	Serbia	–	49.67%	Associate
CE Partner S.a.r.l.	B230176	Luxembourg	50.00%	–	Associate
CE Holding Invest S.C.S	B230358	Luxembourg	49.99%	–	Associate

Name of entity	Measurement method	Carrying amount (EUR '000s) 2018	2017
Profinance doo Beograd	Equity method	–	600
CE Partner S.a.r.l.	Equity method	6	–
CE Holding Invest S.C.S	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 recognized 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 Debt Group as no reliable financial information for the year ended 31 December 2018 was available at the date of disclosure of the annual report.

NOTE 14. DISTRESSED ASSET PORTFOLIOS

EUR '000s	31 Dec 2018	31 Dec 2017
Opening accumulated acquisition cost	**181,219**	**18,384**
Acquired from DDM Treasury Sweden AB	–	81,472
Acquisitions	43,100	94,123
Disposals	–	(13,570)
Revaluation, including forex differences	(1,586)	810
Closing accumulated acquisition cost	**222,733**	**181,219**

According to the DDM Debt Group's strategic plan, significant investments were made in 2018 and 2017, resulting in a substantial increase to distressed asset portfolios.

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

Opening accumulated amortization, revaluation and impairment	**(75,672)**	**(2,785)**
Acquired from DDM Treasury Sweden AB	–	(60,230)
Amortization, including forex differences	(30,673)	(12,091)
Impairment	(2,445)	(566)
Closing accumulated amortization, revaluation and impairment	**(108,790)**	**(75,672)**
Closing net book value	**113,943**	**105,547**

During 2018 and 2017, the Group has not reclassified any of its financial non-current assets, which have been valued at amortized cost, to assets valued at fair value.

The DDM Debt Group invests in portfolios / receivables that are denominated in local currencies as well as portfolios / receivables denominated in EUR. Therefore, fluctuations in the EUR exchange rate against these currencies affects collections from distressed asset portfolios and other long-term receivables from investments and the operating earnings of the DDM Debt Group.

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

EUR '000s	31 December 2018	31 December 2017
EUR	70,620	53,427
HRK	24,570	27,368
CZK	14,878	19,595
RSD	2,116	2,417
RON	1,564	2,411
RUB	195	329
Total	**113,943**	**105,547**

An appreciation of the euro of 10% as at 31 December 2018 against the Croatian kuna would have resulted in an additional unrealized foreign exchange loss of EUR 2.2M (31 December 2017: loss of EUR 2.7M) and against the Czech koruna by EUR 1.4M (31 December 2017: loss of EUR 2.0M). Consequently, a depreciation of the euro of 10% at 31 December 2018 and 31 December 2017 would have resulted in an additional unrealized foreign exchange gain of the same amount.

NOTE 15. OTHER LONG-TERM RECEIVABLES FROM INVESTMENTS

EUR '000s	31 December 2018	31 December 2017
Opening accumulated acquisition cost	**19,523**	–
Acquired from DDM Treasury Sweden AB	–	19,001
Revaluations, including forex differences	(756)	522
Closing accumulated acquisition cost	**18,767**	**19,523**
Opening accumulated amortization and impairment	**(14,560)**	–
Acquired from DDM Treasury Sweden AB	–	(9,630)
Amortization, including forex differences	(1,785)	(4,930)
Closing accumulated amortization and impairment	**(16,435)**	**(14,560)**
Closing net book value	**2,422**	**4,963**

In 2015, DDM Group AG acquired 100% of the shares in Lombard Pénzügyi és Lízing Zrt. and its subsidiaries Lombard Ingatlan Lízing Zrt. and Lombard Bérlet Kft (together "Lombard"), a Hungarian leasing company (see note 3). The fair value of 100% of the equity of Lombard is immaterial, with the economic substance of the investment being the underlying portfolios of loans, which are held by DDM Invest XX AG.

In connection with the bond refinancing in Q1 2017, DDM Debt AB acquired DDM Treasury Sweden AB's subsidiaries holding the NPL portfolios, including the other long-term receivables from investments, which the DDM Debt Group now owns together with a global investment manager as a co-investor. As a result, the underlying assets which represent other long-term receivables from investments are recognized in the financial statements. The fair value of the loans are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method, adjusted for revaluation and impairment.

During 2018 and 2017, the Group has not reclassified any of its financial non-current assets, which have been valued at amortized cost, to assets valued at fair value.

The DDM Debt Group invests in portfolios / receivables that are denominated in local currencies as well as portfolios / receivables denominated in EUR. Therefore, fluctuations in the EUR exchange rate against these currencies affects collections from distressed asset portfolios and other long-term receivables from investments and the operating earnings of the DDM Debt Group.

The carrying values of the other long-term receivables from investments owned by the DDM Debt Group are distributed by currency as follows:

EUR '000s	31 December 2018	31 December 2017
HUF	2,422	4,963
Total	**2,422**	**4,963**

An appreciation of the euro of 10% as at 31 December 2018 against the Hungarian Forint would have resulted in an additional unrealized foreign exchange loss of EUR 0.2M (31 December 2017: EUR 0.5M). Consequently, a depreciation of the euro of 10% at 31 December 2018 and 31 December 2017 would have resulted in an additional unrealized foreign exchange gain of the same amount.

NOTE 16. DEFERRED TAX

DTA - Group EUR '000s	Opening balance	Acquired with the SPVs from DDM Treasury	Income statement (charge) / credit	FX	Closing balance
2018					
Tax losses carried forward	**837**	–	(401)	–	**436**
Total	**837**	–	**(401)**	–	**436**
2017					
Tax losses carried forward	–	1,233	(320)	(76)	**837**
Total	**–**	**1,233**	**(320)**	**(76)**	**837**

DTL - Group EUR '000s	Opening balance	Acquired with the SPVs from DDM Treasury	Income statement (charge) / credit	FX	Closing balance
2018					
Invested assets	**(490)**	–	240	–	**(250)**
Total	**(490)**	**–**	**240**	**–**	**(250)**
2017					
Invested assets	–	(231)	(259)	–	**(490)**
Total	**–**	**(231)**	**(259)**	**–**	**(490)**

The Group's deferred tax assets have been recognized in accordance with IAS 12 as, 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.

NOTE 17. OTHER NON-CURRENT ASSETS

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

Other non-current assets by currency:

Group EUR '000s	31 December 2018	31 December 2017
HUF	103	106
EUR	4	4
SEK	–	6
Total	**107**	**116**

NOTE 18. CURRENT RECEIVABLES

Group EUR '000s	31 Dec 2018	31 Dec 2017
Accounts receivable	7,279	4,994
Receivables from other group companies	422	–
Other receivables	374	18
Prepaid expenses and accrued income	37	197
Total	**8,112**	**5,209**

Group EUR '000s	31 Dec 2018	31 Dec 2017
Accounts receivable < 30 days	7,017	4,976
Accounts receivable 31-60 days	239	4
Accounts receivable 61-90 days	1	2
Accounts receivable > 91 days	22	12
Total	**7,279**	**4,994**

Accounts receivable by currency:

Group EUR '000s	31 Dec 2018	31 Dec 2017
EUR	6,450	2,215
HUF	504	1,581
CZK	182	543
RON	132	170
RUB	11	21
HRK	–	464
Total	**7,279**	**4,994**

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

NOTE 19. CASH AND CASH EQUIVALENTS

Group EUR '000s	31 Dec 2018	31 Dec 2017
Cash and cash equivalents	57,266	57,697
Total	**57,266**	**57,697**

Parent Company EUR '000s	31 Dec 2018	31 Dec 2017
Cash and cash equivalents	707	48,753
Total	**707**	**48,753**

At 31 December 2018 the majority of the DDM Debt Group's bank accounts were held with banks with credit ratings ranging from AA- to BB as rated by Standard & Poor's. At 31 December 2017 the majority of the DDM Debt Group's bank accounts were held with banks with credit ratings ranging from AA- to BB as rated by Standard & Poor's.

NOTE 20. SHARE CAPITAL

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

NOTE 21. BOND LOANS

The DDM Debt Group had the following borrowings at the balance sheet dates of 31 December 2018 and 31 December 2017. See note 3 for a description of contractual undiscounted cash flows.

Bond loan EUR 50M
On 11 December 2017, 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.

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 and to acquire DDM Treasury Sweden AB's subsidiaries holding the NPL portfolios (DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest X AG and DDM Invest XX AG) on 17 February 2017, 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.

DDM Debt's financial instruments contains 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. DDM Debt AB complied with all bond covenants for the years ending 31 December 2018 and 31 December 2017.

DDM Debt has pledged the shares in its subsidiaries as security under the terms and conditions. Certain bank accounts are also assigned to the bond agent and the bondholders as part of the bond terms. DDM Finance AB 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.

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 final 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).

Maturity profile of borrowings:

Group & Parent 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						
Bond loan, 8%	–	49,006	–	–	–	**49,006**
Bond loan, 9.5%	–	84,219	–	–	–	**84,219**
Total	–	**133,225**	–	–	–	**133,225**
at 31 December 2017						
Bond loan, 8%	–	–	48,597	–	–	**48,597**
Bond loan, 9.5%	–	–	83,569	–	–	**83,569**
Total	**–**	**–**	**132,166**	**–**	**–**	**132,166**

NOTE 22. 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
At 1 January 2018	**57,697**	**–**	**(132,166)**	**(74,469)**
Cash flow	(287)	–	–	**(287)**
Amortization of transaction costs (non-cash)	–	–	(1,133)	**(1,133)**
Other non-cash movements	–	–	74	**74**
Exchange movements	(144)	–	–	**(144)**
At 31 December 2018	**57,266**	**–**	**(133,225)**	**(75,959)**

Amounts in EUR '000s	Cash and cash equivalents	Current borrowings	Non-current borrowings	Total
At 1 January 2017	**3,739**	**(6,184)**	**(7,518)**	**(9,963)**
Cash flow	53,167	6,837	(131,584)	**(71,580)**
Effects from the acquisition of other group companies	910	–	–	**910**
Amortization of transaction costs (non-cash)	–	(308)	(577)	**(885)**
Other non-cash movements	–	(345)	7,513	**7,168**
Exchange movements	(119)	–	–	**(119)**
At 31 December 2017	**57,697**	–	**(132,166)**	**(74,469)**

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	(287)	53,167
Increase in external borrowings	–	(148,212)
Repayment of external borrowings	–	23,465
Effects from the acquisition of other group companies	–	910
Change in net debt resulting from cash flows	(287)	(70,670)
Amortization of transaction costs (non-cash)	(1,133)	(885)
Other non-cash movements	74	7,168
Exchange movements	(144)	(119)
Movement in net debt during the year	(1,490)	(64,506)
Opening net debt	**(74,469)**	**(9,963)**
Closing net debt	**(75,959)**	**(74,469)**

Other non-cash movements in 2017 primarily relates to the subordination of loans from other group companies, which are excluded from the definition of net debt according to the terms and conditions of the senior secured bonds.

NOTE 23. CURRENT LIABILITIES

Group EUR '000s	Less than 3 months	3 – 12 months	Total
At 31 December 2018			
Accounts payable	448	–	**448**
Tax liabilities	–	2,190	**2,190**
Accrued interest	3,365	1,800	**5,165**
Accrued expenses and deferred income	722	1,250	**1,972**
Loans from other group companies, subordinated	–	10,000	**10,000**
Total current liabilities	**4,535**	**15,240**	**19,775**
At 31 December 2017			
Accounts payable	298	–	**298**
Tax liabilities	–	745	**745**
Accrued interest	3,365	627	**3,992**
Accrued expenses and deferred income	2,432	120	**2,552**
Loans from other group companies, subordinated	–	10,000	**10,000**
Total current liabilities	**6,095**	**11,492**	**17,587**

Parent Company EUR '000s	Less than 3 months	3 – 12 months	Total
At 31 December 2018			
Accounts payable	102	–	**102**
Tax liabilities	–	13	**13**
Accrued interest	3,365	2,369	**5,734**
Accrued expenses and deferred income	69	–	**69**
Loans from other group companies, subordinated	–	10,000	**10,000**
Total current liabilities	**3,536**	**12,382**	**15,918**
At 31 December 2017			
Accounts payable	7	–	**7**
Payables to other group companies	–	91	**91**
Tax liabilities	–	14	**14**
Accrued interest	3,365	463	**3,828**
Accrued expenses and deferred income	151	–	**151**
Loans from other group companies, subordinated	–	10,000	**10,000**
Total current liabilities	**3,523**	**10,568**	**14,091**

NOTE 24. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

Compensation (to) / from related parties

Group EUR '000s	Management fee	Interest expense	Interest income	Total
2018				
DDM Group AG	(6,000)	–	200	**(5,780)**
DDM Holding AG	–	(2,260)	–	**(2,260)**
DDM Finance AB	–	(1,136)	–	**(1,136)**
Total	**(6,000)**	**(3,396)**	**200**	**(9,176)**

Receivables, payables and debts – related parties

Group EUR '000s	Current	Non-current	Total
at 31 December 2018			
Loan to DDM Group AG	–	2,000	**2,000**
Interest receivable from DDM Group AG	–	411	**411**
Receivables from DDM Group AG	422	–	**422**
Payables to DDM Group AG, subordinated	–	(1,775)	**(1,775)**
Loan payable to DDM Holding AG, subordinated	–	(19,400)	**(19,400)**
Loan payable to DDM Finance AB, subordinated	(10,000)	–	**(10,000)**
Interest payable to DDM Holding AG	(289)	(1,433)	**(1,722)**
Interest payable to DDM Finance AB	(1,301)	–	**(1,301)**
Accrued management fees payable to DDM Group AG	(1,250)	–	**(1,250)**
Total	**(12,418)**	**(20,197)**	**(32,615)**

Compensation (to) / from related parties

Parent Company EUR '000s	Total
2018	
Interest income from DDM Group AG	220
Interest income from DDM Invest I AG	4,129
Interest income from DDM Invest II AG	5,225
Interest income from DDM Invest III AG	1,881
Interest income from DDM Invest VII d.o.o.	76
Interest income from DDM Invest X AG	1,980
Interest income from DDM Invest XX AG	798
Interest income from DDM Debt Management d.o.o. Beograd	275
Accrued interest income from DDM Invest XX AG	389
Interest expense to DDM Finance AB	(1,136)
Interest expense to DDM Invest II AG	(770)
Interest expense to DDM Invest VII AG	(150)
Total	**12,917**

NOTE 24. **BALANCES AND TRANSACTIONS WITH RELATED PARTIES, continued**

Receivables, payables and debts – related parties

Parent Company **EUR '000s**	**Current**	**Non-current**	**Total**
at 31 December 2018			
Loan to DDM Group AG	–	2,000	**2,000**
Loan to DDM Invest I AG	–	39,804	**39,804**
Loan to DDM Invest II AG	–	47,500	**47,500**
Loan to DDM Invest III AG	–	27,700	**27,700**
Loan to DDM Invest VII d.o.o.	–	760	**760**
Loan to DDM Invest X AG	–	18,000	**18,000**
Loan to DDM Invest XX AG	–	7,253	**7,253**
Loan to DDM Debt Management d.o.o. Beograd	–	2,500	**2,500**
Loan receivables from DDM Invest II AG	–	45	**45**
Loan receivables from DDM Invest III AG	–	6	**6**
Loan receivables from DDM Invest XX AG	–	3,320	**3,320**
Loan to DDM Invest II AG, subordinated	–	670	**670**
Loan to DDM Invest IV AG, subordinated	–	565	**565**
Interest receivable from DDM Group AG	–	411	**411**
Accrued interest income from DDM Invest I AG	354	–	**354**
Accrued interest income from DDM Invest II AG	2,613	–	**2,613**
Accrued interest income from DDM Invest III AG	1,268	–	**1,268**
Accrued interest income from DDM Invest VII d.o.o.	115	–	**115**
Accrued interest income from DDM Invest X AG	990	–	**990**
Accrued interest income from DDM Invest XX AG	399	–	**399**
Accrued interest income from DDM Debt Management d.o.o. Beograd	275	–	**275**
Payables to DDM Group AG	–	(181)	**(181)**
Payables to DDM Invest I AG	–	(1,235)	**(1,235)**
Payables to DDM Invest VII AG	–	(3,900)	**(3,900)**
Payables to DDM Invest II AG	–	(7,000)	**(7,000)**
Accrued interest payable to DDM Finance AB	(1,301)	–	**(1,301)**
Accrued interest payable to DDM Invest II AG	(858)	–	**(858)**
Loan from DDM Finance AB, subordinated	(10,000)	–	**(10,000)**
Total	**(6,145)**	**138,218**	**132,073**

NOTE 24. BALANCES AND TRANSACTIONS WITH RELATED PARTIES, continued

In 2017 the DDM Debt Group 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, major shareholders in DDM Debt AB's ultimate parent company, DDM Holding AG. Transactions between DDM Debt Group companies (fully consolidated) and Artemis Finance Holding (and its subsidiaries) were as follows:

Group EUR '000s		1 Jan – 31 Dec 2018	1 Jan – 31 Dec 2017
Income Statement	Net collections	13,962	1,958
	Amortization	(2,085)	1,257
Income Statement, Total		**11,877**	**3,215**

Group EUR '000s		31 December 2018	31 December 2017
Balance sheet	Accounts receivable	4,556	1,958
	Distressed asset portfolios	35,626	37,712
Balance sheet, Total		**40,182**	**39,670**

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.

Compensation (to) / from related parties

Group EUR '000s	Management fee	Interest expense	Interest income	Total
2017				
DDM Group AG	(5,564)	(6)	191	**(5,379)**
DDM Holding AG	–	(1,624)	–	**(1,624)**
DDM Finance AB	–	(165)	–	**(165)**
Total	**(5,564)**	**(1,795)**	**191**	**(7,168)**

Receivables, payables and debts – related parties

Group EUR '000s	Current	Non-current	Total
at 31 December 2017			
Loan to DDM Group AG	–	2,000	**2,000**
Interest receivable from DDM Group AG	–	191	**191**
Receivables from DDM Finance AB	–	5	**5**
Payables to DDM Holding AG	–	(56)	**(56)**
Payables to DDM Group AG	–	(1,541)	**(1,541)**
Loan payable to DDM Holding AG, subordinated	–	(18,128)	**(18,128)**
Loan payable to DDM Finance AB, subordinated	(10,000)	–	**(10,000)**
Interest payable to DDM Holding AG	(252)	(483)	**(735)**
Interest payable to DDM Finance AB	(165)	–	**(165)**
Accrued management fees payable to DDM Group AG	(2,000)	–	**(2,000)**
Total	**(12,417)**	**(18,012)**	**(30,429)**

NOTE 24. BALANCES AND TRANSACTIONS WITH RELATED PARTIES, continued

Compensation (to) / from related parties

Parent Company **EUR '000s**	**Total**
2017	
Interest income from DDM Group AG	191
Interest income from DDM Invest II AG	2,228
Interest income from DDM Invest III AG	444
Interest income from DDM Invest VII AG	298
Interest income from DDM Invest VII d.o.o.	39
Interest income from DDM Invest X AG	578
Interest income from DDM Invest XX AG	3,950
Interest expense to DDM Finance AB	(165)
Interest expense to DDM Invest II AG	(88)
Anticipated dividend income from DDM Invest VII AG	2,500
Total	**9,975**

NOTE 24. BALANCES AND TRANSACTIONS WITH RELATED PARTIES, continued

Receivables, payables and debts – related parties

Parent Company **EUR '000s**	**Current**	**Non-current**	**Total**
at 31 December 2017			
Loan to DDM Group AG	–	2,000	**2,000**
Loan to DDM Invest II AG	–	47,500	**47,500**
Loan to DDM Invest III AG	–	16,700	**16,700**
Loan to DDM Invest VII d.o.o.	–	760	**760**
Loan to DDM Invest X AG	–	18,000	**18,000**
Loan to DDM Invest XX AG	–	7,253	**7,253**
Loan to DDM Debt Management d.o.o. Beograd	–	2,500	**2,500**
Loan receivables from DDM Finance AB	–	5	**5**
Loan receivables from DDM Invest II AG	–	44	**44**
Loan receivables from DDM Invest III AG	–	100	**100**
Loan receivables from DDM Invest IV AG	–	142	**142**
Loan receivables from DDM Invest X AG	–	11	**11**
Loan receivables from DDM Invest XX AG	–	2,559	**2,559**
Loan to DDM Invest II AG, subordinated	–	670	**670**
Loan to DDM Invest IV AG, subordinated	–	565	**565**
Interest receivable from DDM Group AG	–	191	**191**
Receivables from DDM Invest VII AG	3,197	–	**3,197**
Accrued interest income from DDM Invest II AG	2,228	–	**2,228**
Accrued interest income from DDM Invest III AG	306	–	**306**
Accrued interest income from DDM Invest VII d.o.o.	39	–	**39**
Accrued interest income from DDM Invest X AG	578	–	**578**
Accrued interest income from DDM Invest XX AG	422	–	**422**
Payables to DDM Group AG	–	(208)	**(208)**
Payables to DDM Invest I AG	–	(635)	**(635)**
Payables to DDM Invest VII AG	–	(3,899)	**(3,899)**
Payables to DDM Invest XX AG	–	(740)	**(740)**
Loan from DDM Invest II AG	–	(7,000)	**(7,000)**
Payables to DDM Invest VII AG	(91)	–	**(91)**
Accrued interest payable to DDM Finance AB	(165)	–	**(165)**
Accrued interest payable to DDM Invest II AG	(88)	–	**(88)**
Loan from DDM Finance AB, subordinated	(10,000)	–	**(10,000)**
Total	**(3,574)**	**86,519**	**82,945**

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

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

NOTE 25. PARTICIPATIONS IN GROUP COMPANIES

Parent Company EUR '000s	31 December 2018	31 December 2017
Investment	9,478	9,284
Total	**9,478**	**9,284**

Parent Company EUR '000s	Investment
At 1 January 2017	**98**
Acquisitions	9,186
At 31 December 2017	**9,284**
At 1 January 2018	**9,284**
Acquisitions	194
At 31 December 2018	**9,478**

The Parent Company holds shares in the following subsidiaries:

EUR '000s Company	Corporate identity number	Domicile	Proportion of equity 31 Dec 2018	Proportion of equity 31 Dec 2017	Net book value 31 Dec 2018	Net book value 31 Dec 2017
DDM Invest VII AG	CHE 153.128.633	Switzerland	100%	100%	90	90
DDM Invest VII d.o.o.	7109806000	Slovenia	100%	100%	8	8
DDM Invest I AG	CHE 113.863.850	Switzerland	100%	100%	1,393	1,393
DDM Invest II AG*	CHE 115.038.302	Switzerland	100%	100%	–	–
DDM Invest III AG	CHE 115.238.947	Switzerland	100%	100%	635	591
DDM Invest IV AG*	CHE 317.413.116	Switzerland	100%	100%	–	–
DDM Invest V d.o.o. (formerly Ahive d.o.o.)	8297355000	Slovenia	100%	–	–	–
DDM Invest X AG	CHE 130.419.930	Switzerland	100%	100%	1,465	1,465
DDM Invest XX AG	CHE 349.886.186	Switzerland	100%	100%	5,781	5,737
DDM Debt Management d.o.o Beograd*	21313963	Serbia	100%	100%	–	–
DDM Debt Romania S.R.L	39689815	Romania	99%	–	106	–
Total					**9,478**	**9,284**

* The net book value of the investments in DDM Invest II AG, DDM Invest IV AG and DDM Debt Management d.o.o Beograd amount to EUR 1 each as of 31 December 2018 and 31 December 2017. DDM Invest V d.o.o. (formerly Ahive d.o.o. is a 100% indirectly held subsidiary through DDM Invest I AG.

The acquisition of subsidiaries under common control of DDM Holding AG in consolidated other comprehensive income relates to the acquisition of DDM Treasury Sweden AB's subsidiaries (DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest X AG and DDM Invest XX AG) holding the NPL portfolios on 17 February 2017.

NOTE 26. PROPOSED APPROPRIATION OF EARNINGS

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

EUR '000s	2018	2017
Retained earnings	5,208	98
Received capital contribution	–	2,559
Net earnings for the year	44	2,551
Total	**5,252**	**5,208**

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

EUR '000s	2018	2017
Balance carried forward	5,252	5,208
Total	**5,252**	**5,208**

NOTE 27. PLEDGED ASSETS, CONTINGENT LIABILITIES AND COMMITMENTS

The Parent Company has pledged the shares in its subsidiaries (DDM Invest I AG, DDM Invest II AG, DDM Invest III AG, DDM Invest IV AG, DDM Invest VII AG, DDM Invest X AG, DDM Invest XX AG, DDM Invest VII d.o.o, DDM Debt Management d.o.o Beograd) as security under the terms and conditions of the senior secured bonds. In addition, the investors receive a first ranking share pledge over the shares of DDM Debt AB and any downstream loans to DDM Debt AB's subsidiaries are pledged to the investors as intercompany loans. Certain bank accounts are also assigned to the bond agent as part of the bond terms.

The Parent Company's pledged collateral in the form of shares held in the subsidiaries amounts to EUR 834k at 31 December 2018 (EUR 718k at 31 December 2017). Bank accounts of the Group totaling EUR 16k, were assigned to the bond agent at 31 December 2018 (EUR 48,700k at 31 December 2017). In addition, the Parent Company had a bank guarantee of EUR 5k at 31 December 2018 (EUR 5k at 31 December 2017). Neither the DDM Debt Group nor the Parent Company has any other pledged assets, contingent liabilities or other items to report.

The DDM Debt Group has office rental lease contracts in Slovenia and Sweden. At 31 December 2018 the earliest termination date for the office lease agreement was Slovenia is 31 August 2019 and in Sweden this was 31 March 2019. At 31 December 2017 the earliest termination date for the office lease agreement in Slovenia was 31 August 2019 and in Sweden this 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	38	–	–	**38**
At 31 December 2017	41	–	–	**41**

NOTE 28. EVENTS 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, the ultimate parent company of DDM Debt 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 Debt 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 Debt 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.

The Company successfully reached an agreement in March 2019 for a super senior revolving credit facility of EUR 27M with an international bank and 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.

Reconciliation tables, non-IFRS measures

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

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

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

Net collections:

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

Amortization, revaluation and impairment of invested assets:

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

Operating expenses and Cash EBITDA:

Amounts in EUR '000s	**1 Jan – 31 Dec 2018**	**1 Jan – 31 Dec 2017**
Net collections	64,759	34,859
Personnel expenses	(144)	(122)
Consulting expenses	(6,304)	(5,843)
Other operating expenses	(361)	(234)
Operating expenses	(6,809)	(6,199)
Cash EBITDA	57,950	28,660

Net debt:

Bond loan, 8%	49,006	48,597
Bond loan, 9.5%	84,219	83,569
Less: Cash and cash equivalents	(57,266)	(57,697)
Net debt	75,959	74,469

Reconciliation tables, non-IFRS measures, continued

Equity ratio:

Amounts in EUR '000s	31 December 2018	31 December 2017
Shareholder's equity	8,861	6,721
Shareholder debt (subordinated)	31,175	28,128
Total equity according to the senior secured bond terms	40,036	34,849
Total assets	184,719	177,167
Equity ratio	21.7%	19.7%

GLOSSARY

AGM
Annual General Meeting

BN
Billion

CHF
Swiss franc, the currency of Switzerland

CZK
Czech koruna, the currency of the Czech Republic

DCA
Debt collection agency

DDM Group
DDM Holding AG and its subsidiaries, including DDM Debt AB (publ) and its subsidiaries.

DDM Debt Group, the Company or the Group
DDM Debt AB (publ), Swedish Corporate ID No. 559053- 6230, 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

HRK
Croatian kuna, the currency of Croatia

HUF
Hungarian forint, the currency of Hungary

M
Million

NPL
Non-performing loans

Parent Company
DDM Debt AB (publ), Swedish Corporate ID No. 559053- 6230

PLN
Polish złoty, the currency of Poland

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, less operating expenses

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

Equity
Shareholders’ equity at the end of the period

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
The DDM Debt Group’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 third party loans, interest-bearing intercompany loans (excluding subordinated debt) and liabilities to credit institutions (bank overdrafts) less cash and cash equivalents

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

SIGNATURES

The Group's income statement and balance sheet will be presented for adoption at the Annual General Meeting on 28 May 2019.

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

This information was submitted to the market for publication on 29 March 2019.

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

Stockholm, 28 March 2019

Torgny Hellström
Chairman of the board

Fredrik Waker
Board member

Erik Fällström
Board member

Henrik Wennerholm
CEO

Our Audit Report was presented on 28 March 2019

Öhrlings PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant

Auditor's report *(Translation)*

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

Report on the annual accounts and consolidated accounts

Opinions

We have audited the annual accounts and consolidated accounts of DDM Debt AB (publ) for year 2018. The annual accounts and consolidated accounts of the company are included on pages 6-52 in this document.

In our opinion, the annual accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of parent company as of 31 December 2018 and its financial performance and cash flow for the year then ended in accordance with the Annual Accounts Act. The consolidated accounts have been prepared in accordance with the Annual Accounts Act and present fairly, in all material respects, the financial position of the group as of 31 December 2018 and their financial performance and cash flow for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU, and the Annual Accounts Act. The statutory administration report is consistent with the other parts of the annual accounts and consolidated accounts.

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

Our opinions in this report on the annual accounts and consolidated accounts are consistent with the content of the supplementary report that has been submitted to the Parent Company's and the Group's Audit Committee in accordance with Article 11 of the Auditors Ordinance (537/2014).

Basis for Opinions

We conducted our audit in accordance with International Standards on Auditing (ISA) and generally accepted auditing standards in Sweden. Our responsibilities under those standards are further described in the Auditor's Responsibilities section. We are independent of the parent company and the group in accordance with professional ethics for accountants in Sweden and have otherwise fulfilled our ethical responsibilities in accordance with these requirements. This includes that, based on our best knowledge and belief, no prohibited services referred to in Article 5 (1) of the Auditors Regulation (537/2014) have been provided to the audited company or, where applicable, its parent company or its controlled company in the EU.

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

Our audit approach

The focus and scope of the audit

DDM Debt AB's ("DDM") purpose is to finance the DDM Group's subsidiaries through issuing bonds in the Swedish market. The DDM Group is an international corporate group investing in and managing matured receivables in the Eastern-, Central- and Southern European markets.

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.

We designed our audit by determining the materiality and assessing the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective assumptions and considered future events that are inherently uncertain. The area that is inherently uncertain as such is as critical accounting estimates in the valuation of distressed asset portfolios, which have been made based on assumptions and projections about future events. Such forecasts are by nature always 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. All of the subsidiaries have been included in our audit.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether 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. 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.

Key audit matters

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

Key audit matter	How our audit addressed the Key audit matter
Valuation of Distressed asset portfolios and Other long-term receivables from investments. As DDM is a multinational investor and manager of distressed assets, invested assets comprise the most significant position in the financial statements. Invested assets also represent the ability of the company to generate cash flow and further profits in forthcoming periods. Invested assets is considered to comprise a key audit matter due to the size of the balance (EUR 116 million, corresponding to 63% of total assets) as well as due to the fact that the valuation of these assets involves significant judgments and assumptions on behalf of management as regards estimated future cash flows. DDM had invested in distressed asset portfolios, where the receivables are held directly with the debtor and in other long-term receivables from investments, where the receivables are against local legal entities holding the loan portfolios (together “invested assets”). The valuation of these invested assets is based on the expected future cash flow (ERC, estimated future recovery). The process for determining the ERC is stated in Note 5 Significant assessments and estimates when applying the Group's accounting principles. The reported Revenue on invested assets represents the economical profit of the invested assets for the period, applying the amortized cost method, also including the reassessment of future cash flows. We focused 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.	Our audit approach included, among others, an assessment of the company’s assumptions and sample testing of the valuation of the invested assets. 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. • 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 applies in the valuation models. This includes checking the expected future cash flows and internal rate of return (IRR) applied in the model with the initially approved figures. We also challenged the reasonableness of the assumptions made by management regarding market data and industry available data. • We have evaluated and validated the precision of the company’s own historical forecasts as regards cash flows and have compared deviations in the forecasts with actual outcome. • We have, based on available data for similar transactions and portfolios, performed an assessment of the reasonability of the maturity structure of future estimated cash flows. • We found that the book values of the debt portfolios were within the scope of our independent valuation and our testing of the company's processes and methods demonstrated.

We have focused this area on the basis of its size and that significant assessments are used to determine future cash flows. Net income amounts to EUR 65 million and income from debt portfolios EUR 30 million.

Debt collection is outsourced to local collection companies, selected by DDM and adaptation for each type of claim. With a focus on collection and 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.
- 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 tested, substantively, a sample selection of actual cash flows and validated their correct reporting.
- 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 of the invested assets is our assessment that the assumptions used are in the acceptable range of valuation. We have as a result of our audit not reported any significant findings to the Audit Committee.

Other Information than the annual accounts and consolidated accounts

This document also contains other information than the annual accounts and consolidated accounts and is found on pages 1-5. The Board of Directors and the Managing Director are responsible for this other information.

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

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

The Board of Director's Audit Committee, without impacting the responsibilities or duties of the Board in general, and amongst other things, shall monitor the company's financial reporting.

Auditor's responsibility

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

A further description of our responsibility for the audit of the annual accounts and consolidated accounts is available on the Swedish Inspectorate of Auditor's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Report on other legal and regulatory requirements

Opinions

In addition to our audit of the annual accounts and consolidated accounts, we have also audited the administration of the Board of Directors and the Managing Director of DDM Debt AB (publ) for the year 2018 and the proposed appropriations of the company's profit or loss.

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

Basis for Opinions

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

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

Responsibilities of the Board of Directors and the Managing Director

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

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

Auditor's responsibility

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

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

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

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

A further description of our responsibility for the audit of the administration is available on the Swedish Inspectorate of Auditor's website: www.revisorsinspektionen.se/rn/showdocument/documents/rev_dok/revisors_ansvar.pdf. This description is part of the auditor´s report.

Öhrlings PricewaterhouseCoopers AB were appointed to serve as auditors of DDM Debt AB (publ) by the annual meeting of shareholders held in 2016 and Michael Bengtsson has been Auditor-in-Charge since 12 October 2017.

Stockholm, 28 March 2019

Öhrlings PricewaterhouseCoopers AB

Michael Bengtsson
Authorized Public Accountant

DDM DEBT AB (publ)

A MULTINATIONAL INVESTOR AND MANAGER OF DISTRESSED ASSETS

ddm

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