# Group Financial Statements
# for

# Jøtul Group
# 31 December 2017

# Income Statement

| (Amounts in NOK'000) | Note | 2017 | 2016 |
|---|---|---|---|
| **REVENUE, OPERATING INCOME AND OPERATING EXPENSE** | | | |
| **Operating income** | | | |
| Revenue | 1 | 914 353 | 880 331 |
| Other operating income | 2 | 8 411 | 10 104 |
| **Total operating income** | | **922 764** | **890 435** |
| **Operating expense** | | | |
| Changes in inventories of finished goods and work in progress | 3 | 14 978 | -7 308 |
| Raw materials and consumables used | 3 | 302 319 | 296 434 |
| Employee benefits expense | 4 | 292 241 | 297 783 |
| Depreciation and amortisation | 5,6 | 46 169 | 47 883 |
| Impairment of intangible assets | 5,6 | 309 428 | 30 000 |
| Other operating expense | 7 | 273 642 | 255 265 |
| **Total operating expense** | | **1 238 776** | **920 057** |
| **OPERATING RESULT** | | **-316 012** | **-29 622** |
| **FINANCE INCOME AND FINANCE EXPENSE** | | | |
| **Finance income** | | | |
| Other interest income | | 586 | 602 |
| Other finance income | 8 | 76 | 10 682 |
| **Total finance income** | | **662** | **11 283** |
| **Finance expense** | | | |
| Interest expense to parent company | 9 | 2 610 | 2 534 |
| Other interest expense | 10 | 19 811 | 19 842 |
| Other finance expense | 11 | 9 416 | 1 613 |
| **Total finance expense** | | **31 837** | **23 989** |
| **NET FINANCE EXPENSE** | | **-31 175** | **-12 706** |
| **RESULT BEFORE TAX** | | **-347 187** | **-42 328** |
| Income tax expense | 12 | 3 576 | 2 424 |
| **RESULT FOR THE YEAR** | | **-350 762** | **-44 752** |

| | | |
|---|---|---|
| **Other comprehensive income:** | | |
| *Items that may be subsequently reclassified to profit or loss:* | | |
| Foreign currency translation differences | 11 343 | -9 760 |
| Income tax related to items that may be subsequently reclassified | 0 | 0 |
| **Other comprehensive income after tax** | **11 343** | **- 9 760** |
| **Total comprehensive income for the year** | **-339 419** | **-54 527** |

# Balance sheet as at 31 December

| (Amounts in NOK'000) | Note | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| **Intangible assets** | | | |
| Trade name | 5 | 115 927 | 190 000 |
| Other intangible assets | 5 | 14 791 | 24 468 |
| Deferred tax asset | 13 | 1 401 | 3 122 |
| Goodwill | 5 | 0 | 218 412 |
| **Total intangible assets** | | **132 120** | **436 002** |
| **Fixed assets** | | | |
| Land, buildings and other property | 6 | 1 889 | 1 704 |
| Plant and equipment | 6 | 151 986 | 163 901 |
| **Total fixed assets** | | **153 876** | **165 604** |
| **Financial non-current assets** | | | |
| Other receivables | 14 | 16 153 | 15 876 |
| **Total financial non-current assets** | | **16 153** | **15 876** |
| **TOTAL NON-CURRENT ASSETS** | | **302 149** | **617 482** |
| **CURRENT ASSETS** | | | |
| Inventories | 3 | 167 413 | 192 225 |
| **Receivables** | | | |
| Trade receivables | 14 | 92 004 | 84 577 |
| Other receivables | 14 | 8 976 | 13 295 |
| **Total receivables** | | **100 979** | **97 871** |
| Derivatives | 15 | 0 | 3 888 |
| Bank deposits, cash etc. | 9 | 6 294 | 5 893 |
| **TOTAL CURRENT ASSETS** | | **274 686** | **299 876** |
| **TOTAL ASSETS** | | **576 835** | **917 358** |

# Balance sheet as at 31 December

| (Amounts in NOK'000) | Note | 2017 | 2016 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| **Paid-in capital** | | | |
| Share capital | 16 | 135 914 | 135 914 |
| Share premium | | 565 112 | 565 112 |
| **Total paid-in capital** | | **701 026** | **701 026** |
| **Retained earnings** | | | |
| Accumulated losses/other equity | | -912 804 | -573 384 |
| **Total retained earnings** | | **-912 804** | **-573 384** |
| **TOTAL EQUITY** | | **-211 778** | **127 642** |
| **LIABILITIES** | | | |
| **NON-CURRENT LIABILITIES** | | | |
| **Provisions** | | | |
| Deferred tax | 13 | 2 818 | 4 640 |
| Other provisions | 2 | 41 671 | 44 255 |
| **Total provisions** | | **44 488** | **48 895** |
| **Other non-current liabilities** | | | |
| Debt to credit institutions | 9 | 489 741 | 478 749 |
| Subordinated borrowings from shareholders | 9 | 91 983 | 89 373 |
| **Total other non-current liabilities** | | **581 725** | **568 122** |
| **TOTAL NON-CURRENT LIABILITIES** | | **626 213** | **617 017** |
| **CURRENT LIABILITIES** | | | |
| Debt to credit institutions | 9 | 0 | 34 035 |
| Trade payables | | 74 273 | 71 735 |
| Income tax payable | 12 | 0 | 545 |
| Social security tax, VAT etc. payable | | 21 423 | 16 007 |
| Other current liabilities | | 63 594 | 48 434 |
| Derivatives | 15 | 3 110 | 1 943 |
| **TOTAL CURRENT LIABILITIES** | | **162 400** | **172 699** |
| **TOTAL LIABILITIES** | | **788 613** | **789 716** |
| **TOTAL EQUITY AND LIABILITIES** | | **576 835** | **917 358** |

Fredrikstad, 14 June 2018

| | | | |
|---|---|---|---|
| Nils Agnar Brunborg<br>Chairman of the Board/CEO | Øyvind Sandnes<br>Board member | René Christensen<br>Board member | Lars Tore Heggem<br>Board member |
| Arild Johannessen<br>Board member | Geir Bunes<br>Board member | Tommy Grundvig<br>Board member | |

# Statement of changes in Group equity

| | Share capital | Share premium | Foreign currency translation reserve | Accumulated losses | Total |
|---|---|---|---|---|---|
| **Equity as at 1 January 2016** | **135 914** | **565 112** | **24 248** | **-543 105** | **182 169** |
| Result for the year | 0 | 0 | 0 | -44 752 | -44 752 |
| **Other comprehensive income:** | | | | | |
| Foreign currency translation differences | 0 | 0 | -9 760 | -15 | -9 775 |
| Total comprehensive income for the year | 0 | 0 | -9 760 | -44 767 | -54 527 |
| **Transactions with shareholders:** | | | | | |
| Share capital increase | | | 0 | 0 | 0 |
| Total transactions with shareholders | 0 | 0 | 0 | 0 | 0 |
| **Equity as at 31 December 2016** | **135 914** | **565 112** | **14 488** | **-587 872** | **127 642** |
| **Equity as at 1 January 2017** | **135 914** | **565 112** | **14 488** | **-587 872** | **127 642** |
| Result for the year | 0 | 0 | 0 | -350 762 | -350 762 |
| **Other comprehensive income:** | | | | | |
| Foreign currency translation differences | 0 | 0 | 11 343 | | 11 343 |
| Total comprehensive income for the year | 0 | 0 | 11 343 | -350 762 | -339 419 |
| **Equity as at 31 December 2017** | **135 914** | **565 112** | **25 831** | **-938 635** | **-211 778** |

# Statement of cash flows as at 31 December

(Amounts in NOK'000)

| | | |
|---|---|---|
| **Cash flows from operating activities** | | |
| Result before tax | -347 187 | -42 328 |
| Income taxes paid | -4 696 | -1 228 |
| Capitalised interest | 11 137 | 10 770 |
| Depreciation and amortisation | 46 169 | 47 883 |
| Impairment of intangible assets | 309 428 | 30 000 |
| Change in inventories | 24 812 | -7 042 |
| Change in trade receivables | -7 427 | 7 152 |
| Change in trade payables | 2 538 | 554 |
| Change in other accruals/prepayments | 27 557 | -16 057 |
| Unrealised currency translation differences | 5 510 | -6 105 |
| **Net cash flows from operating activities** | **67 841** | **23 599** |
| **Cash flows from investing activities** | | |
| Payments to acquire fixed assets | -33 290 | -30 915 |
| **Net cash flows from investing activities** | **-33 290** | **-30 915** |
| **Cash flows from financing activities** | | |
| Net payment bank overdraft | -34 150 | 7 019 |
| Receipt from other borrowings (current/non-current) | 0 | 0 |
| **Net cash flows from financing activities** | **-34 150** | **7 019** |
| **Net cash flow for the period** | **401** | **-297** |
| Cash and bank deposits at the beginning of the period | 5 893 | 6 189 |
| **Cash and bank deposits at the end of the period** | **6 294** | **5 893** |
| Unused credit facility and bank deposits comprise, in addition | 100 364 | 65 965 |

# Notes 2017

## 1 General information

All figures are in NOK'000 unless stated otherwise.

Jøtul AS and its subsidiaries manufacture, distribute and sell wood-burning stoves, wood-burning fireplaces, gas-burning stoves, gas-burning fireplaces and auxiliary equipment for these via distributors, importers and subsidiaries. The Group has manufacturing facilities in Norway, France, Poland and USA and sells its products in approx. 30 countries. Jøtul AS is registered and domiciled in Norway, and has its head office in Langøyveien on Kråkerøy in Fredrikstad. The company's postal address is: PO Box 1411, 1602 Fredrikstad. Telephone 69 35 90 00.

The consolidated Group financial statements were approved by the Board of Directors on 14 June 2018.

Jøtul's parent company is RATOS AB, a listed company on the Stockholm Stock Exchange, which owns Jøtul AS through a 100% owned investment company, Kamin Intressenter AB. The consolidated financial statements of Jøtul are included in the consolidated financial statements of RATOS AB. Kamin Intressenter AB has sold its shares in Jøtul AB to Open Gate Capital with effect from 28 February 2018.

## 2 Summary of the principal accounting policies

Below is a description of the principal accounting policies applied in the preparation of the consolidated group financial statements. These policies have been applied consistently for all periods presented, unless stated otherwise.

### 2.1 Basis for preparation of the financial statements

The consolidated financial statements of Jøtul AS have been prepared in compliance with International Financial Reporting Standards (IFRS) as adopted by the EU.

New and amended accounting standards issued by the IASB and approved by the EU may impact the financial statements to a larger or smaller degree. No new standards have been implemented in 2017, that have had a significant impact on the consolidated financial statements of Jøtul.

The consolidated financial statements will be impacted by changes to IFRS going forward. The IASB are currently working on a number of projects, the most important being Revenue from Contracts with Customers, Leases and Financial instruments. The new standards will not be effective before 2018/2019. An assessment of IFRS 15 has been conducted, and it has been assessed that the standard will not have a significant impact on the revenue recognition of the company. IFRS 16 Leases will result in a material balance sheet recognition of leasing agreements (see note 7 for additional information on leasing agreements), but the impact on the annual income statements is expected to be of lesser significance. The adoption of the new standards is not expected to have other material effects on the Group.

Jøtul expects to implement the standards on their effective dates, provided that they have been approved by the EU. The Group's consolidated financial statements have been prepared under the going concern assumption.

# Notes 2017

## 2.2 Consolidation principles

*(a) Subsidiaries*
The following subsidiaries are included in the Group:

| Subsidiary | Business office/country | Year of acquisition | Share |
|---|---|---|---|
| Jøtul North America Inc. | Portland, US | 1979 | 100 % |
| Jøtul France SASU | Dardilly, FR | 1983 | 100 % |
| Jøtul UK Ltd. | Worcestershire, UK | 2000 | 100 % |
| Jøtul Hispania | Zaragosa, ESP | 2006 | 100 % |
| Jøtul Polska | Gdansk, PL | 2006 | 100 % |
| Scan AS | Vissenbjerg, DK | 2006 | 100 % |
| Jøtul Italia S.R.L. | Milano, IT | 2007 | 100 % |

Subsidiaries are companies over which the Group has control to determine the financial and operating policies of the entity, normally through share ownership of more than half of the voting rights. Potential voting rights that may be exercised or converted as of the balance sheet date are also included in the assessment of whether control exists.

Subsidiaries are consolidated from the point in time when the Group obtains control, and consolidation is discontinued when control over the subsidiary ceases to exist.

On purchase of a business, the acquisition accounting method is applied. The consideration given is measured at the fair value of the assets transferred, obligations assumed and equity instruments issued. Included in the consideration is also the fair value of all assets or obligations that follow from contingent consideration agreed. Identifiable assets, liabilities and contingent liabilities are recognised at fair value at the date of acquisition. Expenses related to the business combination are expensed as incurred.

Contingent consideration is measured at fair value at the date of acquisition. Subsequent changes in fair value of the contingent consideration shall in accordance with IAS 39 be recognised in profit or loss, or recognised as a change in other comprehensive income if the contingent consideration is classified as an asset or a liability.

Contingent consideration classified as equity is not re-measured, and subsequent changes are recognised in equity.

If the total of the consideration and the fair value of previously held ownership interest exceeds the fair value of identifiable net assets in the acquired company, the difference is recognised as goodwill. If the total is less than the net assets of the company, the difference is recognised in the income statement.

Intra-group transactions, balances, income and expenses are eliminated. Elements of gains and losses related to an asset that has been recognised as a result of a group transaction are also eliminated. The financial statements of the subsidiaries are, if necessary, re-stated to conform with the Group’s accounting policies.

De-recognition of subsidiaries

On loss of control, the remaining ownership interest is measured at fair value, recognising a gain or loss in the income statement. The fair value represents the acquisition cost for subsequent measurement, either as an investment in an associate, joint venture or as a financial asset. Amounts previously recognised in other comprehensive income related to the de-recognised subsidiary are accounted for as if the Group had disposed of the underlying assets and liabilities. This may result in amounts previously accounted for in other comprehensive income being re-classified to profit or loss.

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## 2.3 Allocation of fair value adjustments and previous reporting

The Jøtul Group was formed through the establishment and recapitalisation of Jøtul Group Holding AS (subsequent change of name to Jøtul AS) in 2006.

On allocating fair value adjustments, no adjustment was identified for tangible fixed assets. Intangible assets, primarily represented by the trade name “Jøtul”, were recognised at carrying book value. Fair value adjustments were fully allocated to goodwill at NOK 446.1 million. Impairment losses have been recognised for goodwill and trade name in connection with annual impairment tests.

## 2.4 Segment reporting

Operating segments are reported in the same manner as internal reporting to the company’s chief operating decision maker, and the Group’s only operating segment is “production and sale of fireplaces”. The company’s chief operating decision maker, responsible for the allocation of resources to, and the assessment of the performance of, the operating segment, is defined as the Board of directors in the parent company.

## 2.5 Translation of foreign currency

*(a) Functional currency and presentation currency*
The financial statements of the individual entities in the Group are measured in the currency used in the economic area in which the entity operates (functional currency). The Group financial statements are presented in NOK, which is both the functional currency and the presentation currency of the parent company.

*(b) Transactions and balance sheet items*
Transactions in foreign currencies are translated to the functional currency using the transaction date exchange rate. Currency gains and losses arising on the payment of such transactions, and on translation of monetary items (assets and liabilities) in foreign currencies at the year-end, are translated at the exchange rate prevalent on the balance sheet date.

*(c) Group companies*
The income statement and balance sheet for Group entities with a functional currency that differs from the presentation currency, are translated as follows:

a. the balance sheet is translated at the end-rate at the balance sheet date
b. the income statement is translated at the average rate (if the average exchange rate does not give a reasonable estimate of the accumulated effect of using the transaction date exchange rate, then the transaction date exchange rate is used)
c. currency translation differences are recognised in other comprehensive income and as a separate line item within equity

Goodwill and fair value adjustments arising on the acquisition of foreign entities, are recognised as assets and liabilities in the acquired entity and translated using the exchange rate at the balance sheet date.

## 2.6 Fixed assets

Fixed assets comprise largely machines and equipment in the Group’s plants. The Group’s buildings are for the most part rented under long-term operating lease contracts. Fixed assets are recognised at cost in the balance sheet and depreciated on a straight-line basis over the expected useful life of the asset if the expected useful life is more than three years and the asset had a cost price of more than NOK 15,000. The cost price includes expenses directly attributable to the acquisition of the asset.

Subsequent expenditure is added to the carrying value of the fixed asset, or recognised separately, when it is probable that the future economic benefits related to the addition will flow to the Group, and the cost can

# Notes 2017

be measured reliably. The carrying value of replaced parts is expensed. Other repair and maintenance costs are recognised as an expense in the period incurred.

Land is not depreciated. Other fixed assets are depreciated on a straight-line basis, so that the cost price of the fixed asset is depreciated over its expected useful life, which is:

| | |
|---|---|
| Buildings | 25-40 years |
| Machines | 10-15 years |
| Vehicles | 3-5 years |
| Equipment and fittings | 3-8 years |

The expected useful life of a fixed asset is re-assessed at each reporting date and amended if necessary. When the carrying value of a fixed asset is higher than its estimated recoverable amount, the asset value is written down to the recoverable amount (note 2.7).

Gains and losses on disposal are recognised in profit or loss, classified as other (losses)/gains, and comprises the difference between the sales price and carrying value.

### 2.7 Intangible assets

*(a) Goodwill*
Goodwill is the difference between the cost of acquisition of a business and the fair value of the Group's share of net identifiable assets in the business at the date of acquisition. Goodwill on acquisition of a subsidiary is classified as an intangible asset. Goodwill is tested for impairment on an annual basis, and recognised at cost less impairment losses. Impairment on goodwill is not reversed. Gains or losses on disposal of a business include the carrying value of goodwill related to the sold business.

For subsequent testing of impairment of goodwill, this is allocated to relevant cash generating units. The allocation is based on the cash generating units or groups of cash generating units expected to obtain benefits from the acquisition. Goodwill is for a significant part associated with market-related synergies.

*(b) Trade names*
Trade names are recognised at cost of acquisition and tested for impairment on an annual basis.

*(c) Software*
Acquired software is recognised at cost (including expenditure to make the software operational) and amortised over its expected useful life (3 to 5 years).

Expenditure for maintenance of software is expensed as incurred.

*(d) Development costs*
Expenditure related to the development of new products is expensed until the decision to realise the new product is made. Subsequent development costs to make suitable casts are recognised as fixed assets and depreciated on a straight-line basis over the asset's expected useful life. Other development costs are recognised as intangible assets and amortised on a straight-line basis over the expected useful life of the asset.

*(e) Production rights*
Production rights are recognised as intangible assets and amortised on a straight-line basis over their expected useful like.

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## 2.8 Impairment of non-financial assets

Intangible assets with an indefinite useful life and goodwill are not amortised, but tested for impairment on an annual basis. Fixed assets and intangible assets that are subject to amortisation, are assessed for impairment when there is an indication that future earnings are not sufficient to recover the carrying value of the asset. The difference between the carrying value and the recoverable amount is recognised as an impairment loss. The recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing impairment, assets are grouped at the lowest level at which it is possible to identify independent cash inflows (cash generating units).

For goodwill and trade name, impairment is assessed based on the estimated value in use. Future cash flows are assessed based on budgets and forecasts approved by management and discounted in accordance with the model required in IAS 36.

At each reporting date, the potential for reversing prior impairment charges related to non-financial assets is assessed (except goodwill).

## 2.9 Financial assets

The Group classifies financial assets in the following categories: at fair value through profit or loss, loans and receivables. The classification depends on the purpose of the asset. Management determines the classification of financial assets on initial recognition.

*(a)* *Financial assets at fair value through profit or loss*
A financial asset classified into this category is acquired with the primary purpose to obtain gains from short-term price fluctuations (held for trading). Derivatives are classified as held for trading, unless they are part of a hedging arrangement. Assets in this category are classified as current assets. The fair value of financial derivatives is measured at the balance sheet date, and changes in value are recognised as finance income/finance expense.

*(b)* *Loans and receivables*
Loans and receivables that are not quoted in an active market are classified as current assets, unless they are due in more than 12 months after the balance sheet date, in which case they are classified as non-current assets. Loans and receivables are classified as “trade and other receivables” in the balance sheet (note 2.12). Loans and receivables are recognised at amortised cost using the effective interest method.

## 2.10 Derivatives and hedging

The Group limits its currency and interest risk by entering into long-term currency loans and fixed interest rate contracts. Hedge accounting is not applied and fluctuations in the fair value of foreign currency loans and fixed interest rate contracts are recognised as finance income-/expense.

## 2.11 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the first in – first out method (FIFO). For finished goods and work in progress, acquisition cost consists of expenditure for product design, materials used, direct payroll costs, other direct costs and indirect manufacturing costs (based on normal capacity). Net realisable value is the estimated sales price less costs to complete and selling costs.
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### 2.12 Trade receivables

Trade receivables are measured at fair value on initial recognition. Allowances for losses are recognised when there are objective indicators that the Group will not receive a settlement in accordance with the original terms. If the customer has significant financial problems, there is a likelihood of bankruptcy or a financial restructuring, as well as if there are delays and shortages to payments, these are considered indicators of impairment of trade receivables. The carrying value of trade receivables is reduced by using an allowance account, with changes to the allowance being recognised as part of other operating expense. When a receivable amount is considered lost, the balance written off is also recognised as a reduction to the allowance account. Any subsequent receipts related to balances previously written off are recognised in other operating expense. Trade receivables are not discounted when they are due within one year.

### 2.13 Cash and cash equivalents

Cash and cash equivalents consist of cash and bank deposits.

### 2.14 Equity, share capital and share premium

Ordinary shares, B-shares, C-shares and D-shares are classified as equity. Expenses directly attributable to the issue of new shares or options, net of tax, are recognised in equity as a reduction of the consideration received.

Currency translation differences are recognised as part of other comprehensive income as a separate line item in the statement of changes in equity.

### 2.15 Trade payables

Trade payables are measured at fair value on initial recognition.

### 2.16 Borrowings

Borrowings are recognised at fair value on receipt of the loan. In subsequent periods, borrowings are measured at amortised cost using the effective interest method. Borrowings are classified as current liabilities unless there is an unconditional right to defer payment of the liability for more than 12 months after the balance sheet date.

### 2.17 Income tax payable and deferred tax

The income tax expense comprises income tax payable and deferred tax. Income tax is recognised in profit or loss, except when it relates to items recognised directly in equity.

Income tax payable for the period is recognised in accordance with the tax law and regulations enacted or substantively enacted by the taxation authorities as at the balance sheet date. The legislation in the countries in which the subsidiaries in the Group operate and generate taxable income prevail in the calculation of taxable income.

Deferred tax is calculated on all temporary differences between the tax bases and the Group carrying amounts of assets and liabilities, using the liability method. Deferred tax is determined using the tax rates and tax laws enacted or substantively enacted as at the balance sheet date, and which are expected to be prevalent when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available.

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## 2.18 Pension liabilities

The companies in the Group have various post-retirement arrangements, all complying with requirements in the individual countries.

The parent company decided in December 2014 on a transition from a defined benefit plan to a defined contribution pension plan with effect from 1 January 2015, and the effect was recognised in 2014 as a settlement of the pension plan.

Under defined contribution plans, the Group makes contributions to public or privately managed pension insurance plans, on a mandatory, contractual or voluntary basis. The Group has no further payment obligations when the contributions have been paid. The contributions are recognised as an employee benefits expense on their due date. Prepaid contributions are recognised as an asset to the extent the contribution is refundable or will reduce future payments.

In addition, the company has a supplementary retirement benefits plan (AFP), which entitles employees to a life-long supplement to the ordinary pension payment. Employees may elect to utilise this from the age of 62, also if continuing as an employee, and additional benefits are earned by working until the age of 67. The plan is a defined benefit multi-employer plan, and is financed through contributions, which are determined as a percentage of salary.

It is currently not possible to measure and allocate the obligations in the plan in a reliable manner.

The plan is recognised as a contribution based pension plan where the contributions are expensed as incurred, and no provisions are made in the financial statements.

## 2.19 Provisions

The Group recognises provisions for environmental remediation, warranties, restructuring and legal claims when there is a present legal or constructive obligation arising from past events, and it is probable that the Group will be required to settle the obligation by transferring economic resources, and a sufficiently reliable estimate can be made as to the amount of the obligation.

## 2.20 Revenue recognition

Revenue from the sale of goods and services is recognised at fair value of the consideration, net of value added tax, returns, rebates and discounts.

*(a) Sale of goods*
The Group manufactures and sells a broad spectrum of stove products to distributors and importers. The sale of goods is recognised when an entity within the Group has delivered the goods to the distributor/importer, the distributor/importer is free to select the sales channel and sales price for the goods, and there are no unfulfilled obligations that may influence the distributor/importer’s acceptance of the goods. Delivery is not made until the goods have been shipped to the agreed place and the risk of loss and obsolescence has been transferred to the distributor/importer. Additionally, the distributor/importer must either have accepted the delivery as part of the contract, the time allowed for claims has expired or documentation exists to demonstrate that all criteria associated with delivery have been fulfilled.

*(b) Interest income*
Interest income is recognised proportionally over time in accordance with the effective interest method.

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## 2.21 Lease agreements

Lease agreements where a substantial part of risks and rewards associated with ownership remains with the lessor, are classified as operating leases. Lease payments for operating leases (net of any economic incentives from the lessor) are recognised as an expense on a straight-line basis over the lease term. Lease agreements are classified as operating leases based on an assessment of the substance of the agreements in light of the criteria in IAS17 that are expected to be assessed. The Group leases certain fixed assets. Lease agreements related to fixed assets where the Group assumes substantially all the risks and rewards associated with ownership, are classified as finance leases. Finance leases are, at the inception of the lease, recognised at the lower of the fair value of the fixed asset and the present value of the minimum lease payments. Each lease payment is apportioned between the lease obligation and finance expense to achieve a constant rate of interest on the remaining balance of the obligation. The corresponding lease obligation (net of finance expense) is included in other non-current liabilities. The interest element of the finance expense is recognised over the lease term to achieve a constant rate of interest on the remaining balance of the liability for each period. Fixed assets under finance lease agreements are depreciated over the shorter of the expected useful life of the asset and the term of the lease agreement.

## 2.22 Dividends

Dividend payments to the company's shareholders are classified as a liability from the date on which the dividends have been approved by the General Meeting.

## 2.23 Contingent liabilities

Contingent liabilities are only recognised if it is more likely than not that an actual obligation exists.

## 2.24 Events after the balance sheet date

New information after the balance sheet date pertaining to the financial position on the balance sheet date, is included in the annual financial statements. Events after the balance sheet date that do not affect the financial position of the company as at the balance sheet date, but which will influence the company's financial position in future periods, is disclosed if material, see note 17.

## 3 Financial risk management

## 3.1 Financial risk factors

The Group's activities entail varying types of financial risk, such as: market risk (including currency risk, fair value interest rate risk, floating interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management plan focuses on the unpredictability of the capital markets and attempts to minimise the potential negative effects on the financial results of the Group. The Group utilises foreign currency loans (EUR and USD) and fixed interest rate contracts to reduce its currency and interest rate risk.

Risk management for the group is attended to by Group management in accordance with guidelines approved by the Board. Group management identifies, evaluates and reduces financial risk. The Board issues written principles for the overall risk management, and provides written guidelines for specific areas such as currency risk, interest rate risk, credit risk, use of derivative financial instruments and the investment of surplus liquidity.

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*(a) Market risk*

(i) Currency risk
The Group has international operations and is exposed to foreign exchange risk in several currencies. This risk is particularly relevant for USD, EUR, GBP, SEK, PLN, DKK and JPY. Currency risk arises from future trade transactions, recognised assets and liabilities, and net investments in foreign operations.

The Board has established guidelines that require Group management to manage currency risk associated with the companies' functional currencies. To manage the currency risk from future trade transactions and recognised assets and liabilities, the Group utilises currency loans in EUR and USD. The currency risk arises when future transactions or recognised assets or liabilities are denominated in a currency other than the functional currency of the entity.

The Group's trade receivables, trade payables, multi-currency bank overdrafts and unpaid currency forward contracts are subject to fluctuations in exchange rates. The currency exposure as at the balance sheet date is presented in the notes.

Foreign subsidiaries, with the exception of Scan A/S, generate revenues predominantly in the local currency, and the cost base is also in the local currency. The parent company and the subsidiary Scan A/S have receivables outstanding in foreign currency, and these receivables are subject to fluctuations in exchange rates. The exchange rate exposure related to trade payables is minimal.

(ii) Floating interest- and fixed interest risk
The Group's interest rate risk is related to non-current borrowings. Loans with a floating interest rate give rise to an interest rate risk associated with the cash flows of the Group.

*(b) Credit risk*
Credit risk is considered on Group level. Credit risk arises in transactions involving cash, cash equivalents, derivatives, deposits in banks and credit institutions in addition to transactions with wholesalers and consumers, including trade receivables and fixed agreements. Routines have been implemented to ascertain that sales are only made to distributors/importers that have satisfactory creditworthiness. Counterparties to derivative contracts and financial investments are limited to credit institutions with high credit rating (minimum "A" rating).

If independent credit ratings are available for wholesale customers, these are used in determining credit limits. If no independent credit rating is available, an assessment is made based on the customer's financial position, history and potentially other factors. Individual limits for risk exposure are set based on internal and external assessments of creditworthiness.

The Group's routines for use of credit limits, and the compliance with the routines, are reviewed on a regular basis.

*(c) Liquidity risk*
Cash flow forecasts are prepared in the various operational entities in the Group, and aggregated by the Group's treasury function. The treasury function monitors the rolling forecasts of the Group's liquidity requirements to ensure that the Group has sufficient cash equivalents to cover operational obligations, and simultaneously maintain sufficient flexibility through access to unused drawing rights available in the Group's multi-currency cash pool facility at all times, such that the Group will not exceed its drawing rights/limits or covenants related to the Group's borrowings. Such forecasts consider the Group's planned borrowings and compliance with terms and covenants. Surplus cash in the Group companies, other than what is considered necessary working capital, is transferred to the Group's treasury function. The Group's treasury function utilises surplus cash for the repayment of the multi-currency overdraft liability.

The table below details the Group's financial obligations classified in accordance with the maturity structure as at 31 December 2017. The amounts in the table are undiscounted contractual cash flows.

# Notes 2017

| 31 December 2017 (KNOK) | 1 year | 2 years | 3 years | 4 years | More than 4 years | Total |
|---|---|---|---|---|---|---|
| Non-current loans from credit institutions | 487 824 | 0 | 0 | 0 | 0 | 487 824 |
| Interest payable (calculated) | 8 047 | 0 | 0 | 0 | 0 | 8 047 |
| Bank overdraft | 0 | 0 | 0 | 0 | 0 | 0 |
| Trade payables | 74 273 | 0 | 0 | 0 | 0 | 74 273 |
| Income tax payable | 0 | 0 | 0 | 0 | 0 | 0 |
| Social security tax, VAT etc. payable | 21 423 | 0 | 0 | 0 | 0 | 21 423 |
| Non-current debt to Group companies | 91 983 | 0 | 0 | 0 | 0 | 91 983 |
| Other current liabilities | 63 594 | 0 | 0 | 0 | 0 | 63 594 |
| Derivatives | 3 110 | 0 | 0 | 0 | 0 | 3 110 |
| **Total** | **750 254** | **0** | **0** | **0** | **0** | **750 254** |

| 31 December 2016 (KNOK) | 1 year | 2 years | 3 years | 4 years | More than 4 years | Total |
|---|---|---|---|---|---|---|
| Loans | 0 | 0 | 0 | 0 | 476 410 | 476 410 |
| Interest payable (calculated) | 7 801 | 7 801 | 7 801 | 7 801 | 56 557 | 87 761 |
| Bank overdraft | 34 035 | 0 | 0 | 0 | 0 | 34 035 |
| Trade payables | 71 735 | 0 | 0 | 0 | 0 | 71 735 |
| Income tax payable | 545 | 0 | 0 | 0 | 0 | 545 |
| Social security tax, VAT etc. payable | 16 007 | 0 | 0 | 0 | 0 | 16 007 |
| Non-current debt to Group companies | 0 | 0 | 0 | 0 | 89 373 | 89 373 |
| Other current liabilities | 48 434 | 0 | 0 | 0 | 0 | 48 434 |
| Derivatives | 1 943 | 0 | 0 | 0 | 0 | 1 943 |
| **Total** | **180 500** | **7 801** | **7 801** | **7 801** | **622 340** | **826 243** |

As at the balance sheet date, the Group has a liquidity reserve of MNOK 100 in unused bank overdraft facilities. Total available drawing rights are MNOK 100 and cover both guarantees and withdrawals.

### 3.2 Capital management risk

The Group’s objectives and guidelines for the management of capital is established through the Group’s financial policy. The Group’s financial policy is reviewed every year and adopted by the Board. The main objectives of the Group’s financial policy is to, at all times, ensure that the Group has sufficient liquidity to maintain normal operations, carry out capital additions and use of capital in a manner that reduces risk and costs, and to use all surplus liquidity to repay current bank borrowings. All decisions related to loan financing in the Group’s subsidiaries are made by Group management, i.e. no subsidiaries are mandated to enter into borrowing agreements, establish cash overdraft facilities, provide guarantees or enter into leasing contracts. The Group’s multi-currency cash pool is a suitable tool for structuring the Group’s bank transactions and to optimise net finance items, including currency gains and losses. All subsidiaries are included in the multi-currency cash pool and have no significant bank arrangements in addition to this.

### 3.3 Operational risk

The Group has operations in Norway, Denmark, Poland, France, England, Spain, Italy and USA. The Group has manufacturing and sales activities in all countries except Italy, Spain and England, where there are only sales activities.

# Notes 2017

Group management's assessment is that the operational risk is limited. However, certain raw materials are critical. The Group has in this area ensured that it has several and alternative suppliers.

In Norway, the power supply to the foundry is important, and the Group has secured supplies through a spare high voltage transformer and a separate agreement with power suppliers for maintenance of the high voltage installation. Casts are a critical factor in the foundry in Norway, and these are safeguarded in a separate fire-proof storage facility with an automatic foam installation. In addition, the design is stored electronically and may be recreated in an automated cutting machine.

The foundry machine is a critical factor, but a sufficient inventory of critical spare parts held both locally and with suppliers secures continual operations. The Group's casts fit standardised foundry machines in Europe so that hire production can be established within a reasonable time.

The production in Denmark takes place with machines that are available in the market and which can be replaced within a reasonable time. Hire production with external suppliers is also possible for parts for the products, which then can be assembled in Jøtul's own factory.

The Group has no owned vehicles for transport of goods, but sources such services. Several suppliers are used and the Group does not consider transport availability as a risk in the current situation. Access to workforce, both trained and untrained is not an issue in the countries in which the Group operates. Technical data, drawings, procedures etc. are stored electronically with good external back-up systems.

### 3.4 Fair value assessment

The table below shows financial instruments at fair value according to valuation method. The different levels are defined as follows:

Level 1: Quoted price in an active market for an identical asset or liability
Level 2: The valuation is based on other observable factors than direct (price) or indirect (derived from prices) for the asset or liability (level 2)
Level 3: The valuation is based on factors that are not derived from observable markets (non-observable assumptions) (level 3)

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| **Assets** | | | |
| Derivatives | 0 | 0 | 0 |
| **Total assets** | **0** | **0** | **0** |
| | | | |
| **Liabilities** | | | |
| Derivatives | 0 | 3 110 | 0 |
| **Total liabilities** | **0** | **3 110** | **0** |

The table below shows the Group's financial instruments split by valuation method as at 31 December 2017:

# Notes 2017

| | Measured as amortised cost | At fair value through profit or loss | Carrying value |
|---|---|---|---|
| *Non-current assets:* | | | |
| Other receivables | 16 153 | 0 | 16 153 |
| | | | |
| *Current assets:* | | | |
| Trade receivables | 92 003 | 0 | 92 003 |
| Other receivables | 8 976 | 0 | 8 976 |

| | Measured as amortised cost | At fair value through profit or loss | Carrying value |
|---|---|---|---|
| *Non-current liabilities:* | | | |
| Debt to credit institutions | 489 741 | 0 | 489 741 |
| Non-current debt to Group companies | 91 983 | 0 | 91 983 |
| | | | |
| *Current liabilities:* | | | |
| Trade payables | 74 273 | 0 | 74 273 |
| Other current liabilities | 63 594 | 0 | 63 594 |
| Derivatives* | 0 | 3 110 | 3 110 |

The table below shows the Group's financial instruments split by valuation method as at 31 December 2016:

| | Measured as amortised cost | At fair value through profit or loss | Carrying value |
|---|---|---|---|
| *Non-current assets:* | | | |
| Other receivables | 15 876 | 0 | 15 876 |
| | | | |
| *Current assets:* | | | |
| Trade receivables | 84 577 | 0 | 84 577 |
| Other receivables | 13 295 | 0 | 13 295 |
| Derivatives | 0 | 3 888 | 3 888 |

| | Measured as amortised cost | At fair value through profit or loss | Carrying value |
|---|---|---|---|
| *Non-current liabilities:* | | | |
| Debt to credit institutions | 478 749 | 0 | 478 749 |
| Non-current debt to Group companies | 89 373 | 0 | 89 373 |
| | | | |
| *Current liabilities:* | | | |
| Debt to financial institutions | 34 035 | 0 | 34 035 |
| Trade payables | 71 735 | 0 | 71 735 |
| Other current liabilities | 48 434 | 0 | 48 434 |
| Derivatives* | 0 | 1 943 | 1 943 |

# Notes 2017

*Derivatives consist of the fair value of currency forward contracts in foreign currencies and fixed interest rate contracts. In determining the present value of currency forward contracts the difference between the agreed forward rate and the rate for the currency as at the balance sheet date, multiplied by the volume of the contract in the foreign currency, is used. In determining the present value of fixed interest rate contracts, the relevant interest rate as at the balance sheet date is used. The calculation is performed by the Group's bank, which submits a market report as at the balance sheet date to the Group.

The nominal amount less impairment for losses on trade receivables and the nominal amount of trade payables is considered to approximate the fair value of the items. The fair value of financial obligations (calculated for the purposes of notes disclosures) is estimated by discounting the future contractual cash flows using the alternative market interest rate for similar financial instruments.

## 4 Critical accounting estimates and management judgments

Estimates and judgments are assessed on an ongoing basis, and are based on historical experience and other factors, including expectation of future events that are considered likely to occur under current circumstances.

### 4.1 Critical accounting judgements and assumptions

The Group uses estimates and makes assumptions about the future. The accounting estimates arising from this will by definition rarely be completely in accordance with the actual outcome. Estimates and assumptions representing a significant risk of material changes to carrying values of assets and liabilities during the next financial year, are discussed below.

*(a) Estimated impairment on goodwill and trade name*
The Group performs annual tests to assess impairment on goodwill and trade name, ref. note 5. The recoverable amount from cash generating units is determined based on calculations of value in use. These are calculations that require the use of estimates. Sensitivity analyses are performed in the detailed note.

*(b) Income tax*

*Transfer pricing*

The Group is taxed on income earned in several countries. Use of judgment is necessary to determine the income tax for all countries, except one, in the Group financial statements. For many transactions and calculations there will be uncertainty associated with the final tax liability.

The Group complies with the OECD guidance on applying the arm's length principle in determining intra-group prices, by using the – according to the OECD – most common method, the TNMM method (Transactional net margin method). The method consists of determining transfer prices based on a comparison of own results with several other similar businesses in the various countries in which the Group has operations. The Group has complied with the documentation requirements for determination of transfer prices.

### 4.2 Significant judgments in the application of the entity's accounting policies

*(a) Revenue recognition*
The company sold the factory building, as well as the shares, of Jøtul Eiendom AS (which owns the company's leased administration building) at the beginning of 2006. The lease agreement was determined to be an operating lease in accordance with IAS 17.10/11. The gain on disposal of the building/shares was in total 93 694 794. Due to severe difficulties in determining the market value of the company's properties without a leaseback agreement, the gain is recognised over the rental term (IAS 17.61), which is 20 years. The gain recognised in profit or loss in 2017 is 4 705 104.

# Notes 2017

## Note 1 – Revenue by geography

The Group's only operating segment «production and sale of fireplaces» is identified through the reporting used by the Board of the parent company in evaluating results and profitability on a strategic level.

Revenue by main markets in KNOK

| | **2017** | **2016** |
|---|---|---|
| Nordic countries | 327 597 | 320 507 |
| United Kingdom and rest of the world | 58 236 | 65 518 |
| USA and Canada | 181 200 | 170 939 |
| Latin Europe | 232 654 | 214 828 |
| Central Europe | 62 754 | 62 063 |
| Eastern Europe | 51 910 | 46 476 |
| **Total main markets** | **914 353** | **880 331** |

## Note 2 – Other operating income and other provisions for obligations

| | **2017** | **2016** |
|---|---|---|
| Deferred income recognised* | 4 705 | 4 705 |
| Other operating income | 2 606 | 3 746 |
| Gain on disposal of fixed assets | 1 100 | 1 653 |
| **Total other operating income** | **8 411** | **10 104** |

*) Deferred income recognised in the current year from sale and leaseback of factory building in 2006 comprises 4 705.

| **Deferred income comprises** | **31 December 2017** |
|---|---|
| Deferred income from gain on sale of factory and office building | 37 641 |
| Other obligations | 4 030 |
| **Total other provisions for obligations** | **41 671** |

## Note 3 - Inventories

| | **2017** | **2016** |
|---|---|---|
| Raw materials | 57 447 | 67 129 |
| Work in progress | 15 616 | 16 444 |
| Finished goods | 81 413 | 101 934 |
| Trading goods | 12 937 | 6 718 |
| **Total** | **167 413** | **192 225** |

The carrying value of inventories measured at net realisable value (obsolescence) is NOK 8.6 million (prior year equivalent was NOK 9.7 million)

The Group's policy is to hold spare parts for all products that have been manufactured in the last 10 years in inventory, and the Group's criteria for calculating obsolescence is:

| | |
|---|---|
| Category 1 | No sale/usage last 36 months, allowance of 100% of manufacturing cost |
| Category 2 | No sale/usage last 24 months, allowance of 50% of manufacturing cost |
| Category 3 | Sale/usage last 12 months and inventory representing more than one year of usage is reduced by an allowance of 25% of manufacturing cost |

# Notes 2017

## Note 4 – Employee benefits expense

| | **2017** | **2016** |
|---|---|---|
| Wages and salaries | 239 830 | 242 626 |
| Social security | 32 751 | 33 375 |
| Pension cost | 9 750 | 9 858 |
| Other payroll related benefits | 9 910 | 11 924 |
| **Total** | **292 241** | **297 783** |
| | | |
| Number of employees | 534 | 564 |

**Emoluments to leading employees**

| | |
|---|---|
| *CEO* | |
| Salary | 3 372 |
| Pension | 250 |
| Other remuneration | 156 |
| | |
| Members of the Board | 983 |

The CEO was employed from 1 October 2017, and was in the period from the end of January to the end September contracted in as CEO through the manpower agency Interimleder AS. The prior CEO, who resigned in January 2017, has received a total payment of 2 952 in 2017.

The CEO has a notice period of 6 months in addition to rights to compensation for 6 months. The CEO has a bonus agreement which is limited to a maximum of 50% of the base salary.

No loans or credits have been given to leading employees or key persons.

*Emoluments to leading employees*
Leading employees include Group management and members of the Board. Emoluments to leading employees are shown below:

| | **2017** | **2016** |
|---|---|---|
| Salary and other short term benefits to employees | 8 886 | 10 793 |
| Pension benefits | 502 | 464 |
| **Total** | **9 388** | **11 257** |

CEO, CFO and COO have been hired in for part of the year.

No loans or credits have been given to leading employees or key persons.

**Fees to auditor, excl. VAT:**

| | |
|---|---|
| Total fees to the appointed auditor | 933 |
| Total fees to other auditor | 605 |
| Tax advisory and other services | 423 |
| **Total fees to auditor** | **1 961** |

# Notes 2017

**Note 5 – Intangible assets**

| | Goodwill | Trade name | Other intangible assets | Total |
|---|---|---|---|---|
| **As at 1 January 2016** | | | | |
| Cost of acquisition | 485 790 | 190 000 | 79 254 | 755 044 |
| Accumulated amortisation | 0 | | -51 211 | -51 211 |
| Accumulated impairment losses | -233 000 | | | -233 000 |
| **Carrying value as at 1 January 2016** | **252 790** | **190 000** | **28 043** | **470 833** |
| | | | | |
| **Financial year 2016** | | | | |
| Currency translation differences – cost | -4378 | 0 | -3 972 | -8 350 |
| Currency translation differences – acc. amortisation | 0 | 0 | 2 714 | 2 714 |
| Additions | 0 | 0 | 5 202 | 5 202 |
| Disposals – cost | 0 | 0 | -33 | -33 |
| Disposals – amortisation | 0 | 0 | 32 | 32 |
| Amortisation for the year | 0 | 0 | -7 519 | -7 519 |
| Impairment losses for the year | -30 000 | 0 | 0 | -30 000 |
| **Carrying value as at 31 December 2016** | **218 412** | **190 000** | **24 468** | **432 880** |
| | | | | |
| **As at 31 December 2016** | | | | |
| Cost of acquisition | 481 412 | 190 000 | 80 452 | 751 864 |
| Accumulated amortisation | 0 | 0 | -55 984 | -55 984 |
| Accumulated impairment losses | -263 000 | 0 | 0 | -263 000 |
| **Carrying value as at 31 December 2016** | **218 412** | **190 000** | **24 468** | **432 880** |
| | | | | |
| **Financial year 2017** | | | | |
| **Carrying value as at 1 January 2017** | **218 412** | **190 000** | **24 468** | **432 880** |
| Currency translation differences – cost | 6 555 | | 6 164 | 12 719 |
| Currency translation differences – acc. amortisation | | | -4 611 | -4 611 |
| Additions | | | 6 202 | 6 202 |
| Disposals – cost | | | -36 | -36 |
| Disposals – amortisation | | | 36 | 36 |
| Amortisation for the year | | | -7 044 | -7 044 |
| Impairment losses for the year | -224 967 | -74 073 | -10 388 | -309 428 |
| **Carrying value as at 31 December 2017** | **0** | **115 927** | **14 791** | **130 718** |
| | | | | |
| **As at 31 December 2017** | | | | |
| Cost of acquisition | 487 967 | 190 000 | 92 781 | 770 748 |
| Accumulated amortisation | 0 | 0 | -67 602 | -67 602 |
| Accumulated impairment losses | -487 967 | -74 073 | -10 388 | -572 428 |
| **Carrying value as at 31 December 2017** | **0** | **115 927** | **14 791** | **130 718** |

# Notes 2017

Goodwill has for the most part arisen through the establishment of the Group in 2006 (Ratos). Cost of acquisition for the trade name arose through the Group establishment in 2004 (Accent) and was carried at the same value in the new Group that was established in 2006 (Ratos).

* Goodwill and fair value adjustments on acquisition of foreign entities are considered as assets and liabilities in the acquired subsidiary and are translated at the exchange rate on the balance sheet date. Ref. accounting policies note 2.4

Goodwill is allocated to the Group's cash generating units identified by segment. Other intangible assets consist of capitalised development costs and production rights in the Group's subsidiary in Denmark. For other intangible assets, a straight-line amortisation period of 3-10 years is applied, depending on the asset category.

In connection with the transfer of shares to Open Gate Capital (ref note 17), intangible assets have been written down to a value that reflects the transaction value.

***Research and development costs:***

The Group's total research and development costs expensed during the year are KNOK 17 205. This includes wages and salaries, bought-in services, materials and a share of the Group's fixed overhead costs. The expected total earnings from development projects in progress correspond to the total costs incurred. Development of intangible assets includes internal projects managed by internal resources. Certain services are bought in.

# Notes 2017

**Note 6 – Fixed assets**

| | Land and buildings | Plant and machinery | Total |
|---|---|---|---|
| **As at 1 January 2016** | | | |
| Cost of acquisition | 6 588 | 698 128 | 667 750 |
| Accumulated depreciation | -4 928 | -515 300 | -478 720 |
| **Carrying value as at 1 January 2016** | **1 660** | **182 829** | **189 030** |
| | | | |
| **Financial year 2016** | | | |
| **Carrying value as at 1 January 2016** | 1 660 | 182 829 | 184 489 |
| Currency translation differences – cost | -267 | -8 632 | -8 898 |
| Currency translation differences – acc. depreciation | 217 | 6 126 | 6 343 |
| Additions | 458 | 25 255 | 25 713 |
| Disposals – cost | -385 | -21 474 | -21 858 |
| Disposals – depreciation | 327 | 19 852 | 20 178 |
| Depreciation for the year | -308 | -40 056 | -40 364 |
| **Carrying value as at 31 December 2016** | **1 704** | **163 901** | **165 604** |
| | | | |
| **As at 31 December 2016** | | | |
| Cost of acquisition | 6 395 | 693 278 | 699 674 |
| Accumulated depreciation | -4 692 | -529 378 | -534 070 |
| **Carrying value as at 31 December 2016** | **1 704** | **163 901** | **165 604** |
| | | | |
| **Financial year 2017** | | | |
| **Carrying value as at 1 January 2017** | **1 704** | **163 901** | **165 604** |
| Currency translation differences – cost | -178 | 6 273 | 6 095 |
| Currency translation differences – acc. depreciation | 126 | -4 474 | -4 348 |
| Reclassifications | | | |
| Additions | 577 | 26 512 | 27 089 |
| Disposals – cost | | -7 725 | -7 725 |
| Disposals – depreciation | | 6 285 | 6 285 |
| Depreciation for the year | -340 | -38 785 | -39 125 |
| **Carrying value as at 31 December 2017** | **1 889** | **151 986** | **153 876** |
| | | | |
| **As at 31 December 2017** | | | |
| Cost of acquisition | 6 795 | 718 338 | 725 133 |
| Accumulated depreciation | -4 905 | -566 352 | -571 257 |
| **Carrying value as at 31 December 2017** | **1 889** | **151 986** | **153 876** |

Land is not depreciated. Other fixed assets are depreciated on a straight-line basis, so that the cost price of the fixed assets are depreciated to their residual value over the expected useful life, which is:

| | |
|---|---|
| Buildings | 25-40 years |
| Machinery | 10-15 years |
| Vehicles | 3-5 years |
| Fittings and equipment | 3-8 years |

The useful life of the fixed assets, as well as their residual values, are evaluated on every balance sheet date and amended if necessary. When the carrying value of a fixed asset is higher than the estimated recoverable amount, the value is written down to the recoverable amount.

# Notes 2017

## Note 7 – Other operating expense

| Specification of other operating expense | 2017 | 2016 |
|---|---|---|
| Shipping and distribution cost | 37 807 | 36 846 |
| Rental of buildings and machinery | 46 269 | 47 386 |
| Selling costs | 59 739 | 60 128 |
| Production- and maintenance costs | 26 786 | 30 984 |
| Other operating expense | 103 041 | 79 921 |
| **Total other operating expense** | **273 642** | **255 265** |

The Group rents plant, machinery, offices and factory buildings through non-cancellable rental agreements, where property rental constitutes the largest proportion of the annual cost and future minimum lease payments.

The agreements for rental of offices and factory buildings may be extended on the expiry of the rental terms:

- In Norway the rental term may be extended by 4 * 5 years after the expiry of the rental term, which is 2031
- In Denmark a 3 year rental contract has been entered into. On expiry of the rental term in 2018, the agreement continues until terminated, with a 6 month notice period
- In the USA the rental term continues until 2024 with an option to extend
- In France the rental term for the office building is until June 2024, whilst for the production facilities there is a lease obligation until 2026.

The agreements include provisions for annual price regulations.

| | 2017 | 2016 |
|---|---|---|
| Expensed leasing cost for the year | 46 269 | 47 386 |

Future accumulated minimum payments related to non-cancellable lease agreements are as follows:

| | 2017 | 2016 |
|---|---|---|
| Expire in less than 1 year | 44 157 | 41 302 |
| Expire between 2 and 5 years | 127 360 | 134 454 |
| Expire later than 5 years | 242 054 | 272 198 |
| Total future lease obligations | **413 572** | **447 954** |

## Note 7 – Other finance income

| | 2017 | 2016 |
|---|---|---|
| Net unrealised foreign exchange gains | 76 | 10 658 |
| Other finance income | | 23 |
| **Total other finance income** | **76** | **10 681** |

# Notes 2017

## Note 9 – Debt to credit institutions, subordinated loan and loan covenants

| **Debt to credit institutions** | **2017** | **2016** |
|---|---|---|
| Lease obligations | 1 917 | 2 338 |
| Non-current loans | 487 824 | 476 411 |
| Non-current debt to Group companies | 91 983 | 89 373 |
| **Total borrowings from financial institutions** | **581 725** | **568 122** |

There are no borrowings with a maturity of more than 5 years from the balance sheet date.

The Group's borrowings, long-term and bank overdrafts, have a floating interest rate in NOK, USD, EUR, GBP, SEK, DKK and PLN and are as such subject to fluctuations in the general interest rate levels.

As at the end of the year, the non-current loans were issued in NOK, USD and EUR.

*Covenants*
In 2015, the company's borrowings were re-financed in their entirety. The new loan agreement is effectual until 2020. The loan agreement is subject to quarterly covenants testing. The company has passed the covenants tests in 2017.

Also refer to note 17 for events after the balance sheet date.

*Current debt to credit institutions*
The parent company, Jøtul AS, has entered into a loan engagement with its bank, Nordea, which among other things includes a multi-currency bank overdraft facility for the entire Group. The subsidiaries are included in the cash pool system and every company has a bank overdraft tied to its account. Jøtul AS manages the system and distributes the overdraft facility to the individual companies as required. Every subsidiary has a loan- or deposit relationship with Jøtul AS and not with external financial institutions. The subsidiaries have a joint responsibility to Nordea for the obligations of Jøtul AS in accordance with Jøtul AS' agreement with Nordea.

The total drawing rights related to the multi-currency overdraft and guarantees given as of 31 December 2017, is NOK 100 million.

| **Current deposits by currency as at 31 December 2017** | **Currency** | **NOK** |
|---|---|---|
| PLN | -7 307 | -17 214 |
| DKK | -20 772 | -27 484 |
| GBP | 230 | 2 557 |
| SEK | 3 770 | 3 767 |
| USD | 449 | 3 700 |
| EUR | 4 144 | 40 820 |
| NOK | 148 | 148 |
| **Total** | | **6 294** |

| **Current overdraft by currency as at 31 December 2016** | **Currency** | **NOK** |
|---|---|---|
| PLN | -5 993 | -12 347 |
| DKK | -48 860 | -59 722 |
| GBP | 153 | 1 619 |
| SEK | 3 181 | 3 017 |
| USD | -2 238 | -19 352 |
| EUR | 2 333 | 21 200 |
| NOK | 31 549 | 31 549 |
| **Total** | | **-34 035** |

# Notes 2017

**Mortgages:**

| | 2017 | 2016 |
|---|---|---|
| Borrowings secured by collateral | 487 824 | 510 446 |

**Mortgaged assets:**

| | | |
|---|---|---|
| Fixed assets | 153 876 | 165 604 |
| Trade receivables | 92 004 | 84 577 |
| Inventories | 167 413 | 192 225 |
| **Total mortgaged assets** | **413 293** | **442 406** |

**Note 10 – Other interest expense**

| | 2017 | 2016 |
|---|---|---|
| Interest to credit institutions | 19 811 | 19 842 |
| **Total Other interest expense** | **19 811** | **19 842** |

**Note 11 – Other finance expense**

| | 2017 | 2016 |
|---|---|---|
| Net currency gain/loss | 7 942 | 743 |
| Other finance expense | 1 474 | 870 |
| **Total other finance expense** | **9 416** | **1 613** |

# Notes 2017

## Note 12 – Income tax expense

### Income tax expense

| | 2017 | 2016 |
|---|---|---|
| Income tax | 3 646 | 1 686 |
| Change deferred tax/deferred tax asset | -70 | 738 |
| **Total income tax expense** | **3 576** | **2 424** |

Tax on result before tax deviates from the amount that would have been arrived at if the Group's average tax rate had been used.

The difference is explained as follows:

| | 2017 | 2016 |
|---|---|---|
| Result before tax | -347 187 | -42 328 |
| Tax estimated using the average tax rate, 25% 2016/24% 2017 | -83 325 | -10 582 |
| *Tax effects from:* | | |
| Effect of foreign tax rates differing from 24% | 2 654 | 2 495 |
| Non-taxable income | -452 | 0 |
| Deferred tax assets not recognised | 10 430 | 2 760 |
| Non-deductible expenses | 74 269 | 7 751 |
| **Total income tax expense** | **3 576** | **2 424** |
| **Average tax rate** | -1.03% | -5.73% |

## Note 13 – Deferred tax and deferred tax assets

Deferred tax is presented net when the Group has a legal right to offset deferred tax assets against deferred tax in the balance sheet and if the deferred tax relates to the same tax authority.

| **Change in the carrying value of deferred tax /deferred tax assets:** | **2017** | **2016** |
|---|---|---|
| Carrying value as at 1 January | 1 518 | 827 |
| Expense/(income) for the period | -102 | 691 |
| Carrying value as at 31 December | 1 416 | 1 518 |

# Notes 2017

Change in deferred tax assets and deferred tax (without net presentation within the same taxation regime.

| Deferred tax assets: | Fixed assets and intangible assets | Temporary differences | Losses carried forward | Other | Total |
|---|---|---|---|---|---|
| Balance as at 1 January 2017 | 67 258 | 3 749 | -53 950 | -15 539 | 1 518 |
| Recognised in profit or loss | -6 123 | -1 613 | 6 316 | 1 350 | -70 |
| Reclassified | 0 | 0 | 0 | 0 | 0 |
| Exchange rate differences | 288 | 180 | -405 | -95 | -32 |
| **Balance as at 31 December 2017:** | **61 423** | **2 317** | **-48 039** | **-14 284** | **1 416** |

The tax losses carried forward are largely related to the parent company. The total losses carried forward in the parent company are NOK 543 313 thousand, which represents a tax asset of NOK 124 962 thousand, this asset is not recognised.

### Note 14 – Trade receivables and other receivables

| | **2017** | **2016** |
|---|---|---|
| Trade receivables | 94 315 | 87 915 |
| Allowance for probable losses on trade receivables | -2 311 | -3 338 |
| Trade receivables, net | 92 004 | 84 577 |
| Prepayments and loans receivable | 8 976 | 13 295 |
| Loans receivable | 16 153 | 15 876 |
| **Total trade and other receivables** | **117 132** | **113 747** |
| | | |
| Losses recognised on trade receivables | 346 | 852 |
| | | |
| Of which non-current assets | 16 153 | 15 876 |
| Of which current assets | 100 979 | 97 871 |

All non-current receivables are due within five years of the balance sheet

Fair value of trade receivables and other receivables are as follows:

| | **2017** | **2016** |
|---|---|---|
| Trade receivables | 92 004 | 84 577 |
| Prepayments | 8 976 | 13 295 |
| Deposits for property leases and loans* | 16 153 | 15 876 |
| **Total fair value of trade and other receivables** | **117 132** | **113 747** |

* An interest-bearing loan of NOK 13.5 million has been given to Festningsveien 2 AS in connection with their building of a new warehouse and manufacturing facility for the company's plant in Kråkerøy.

The Group's credit terms very from market to market. For the Nordic market, credit terms are normally 30 days, whilst terms in Latin Europe are normally 45-90 days. For customers in the USA and Italy participating in "early purchase-" campaigns, credit terms may be significantly longer.

# Notes 2017

**Ageing of trade receivables and allowance for losses**

| | Nominal amount | Allowance | Carrying value |
|---|---|---|---|
| Not due | 72 978 | -500 | 72 478 |
| 0-61 days overdue | 18 042 | -347 | 17 694 |
| 61-180 days overdue | 1 043 | -38 | 1 004 |
| 181-365 days overdue | 1 285 | -458 | 827 |
| More than one year | 968 | -968 | 0 |
| **Total** | 94 315 | -2 311 | 92 004 |

| Trade receivables by currency as at 31 December 2017 | Currency | NOK |
|---|---|---|
| PLN | 1 833 | 4 318 |
| DKK | 791 | 1 047 |
| GBP | 595 | 6 605 |
| SEK | 6 960 | 6 954 |
| USD | 2 237 | 18 435 |
| EUR | 3 846 | 37 883 |
| NOK | 16 761 | 16 761 |
| **Total** | | **92 004** |

| Trade receivables by currency as at 31 December 2016 | Currency | NOK |
|---|---|---|
| PLN | 1 739 | 3 583 |
| DKK | 341 | 417 |
| GBP | 664 | 7 049 |
| SEK | 6 335 | 6 008 |
| USD | 2 156 | 18 642 |
| EUR | 3 747 | 34 048 |
| NOK | 14 831 | 14 831 |
| **Total** | | **84 577** |

## Note 15 - Derivatives

The value of the Group’s fixed interest rate contracts that have not been settled (derivatives) is calculated by the company’s bank and included in the various line items in the balance sheet in the following amounts:

| | 2017 | 2016 |
|---|---|---|
| "Derivatives" (current asset) | 0 | 3 888 |
| "Other current liabilities" | -3 110 | -1 943 |
| **Total currency forward and fixed interest rate contracts** | **-3 110** | **1 944** |

## Note 16 – Share capital

The parent company has 19 416 247 shares, each at a nominal value of NOK 7, the total share capital comprising NOK 135 913 729. All share classes have equal rights in terms of voting rights. The share classes have different rights related to dividend distribution.

# Notes 2017

The largest shareholders of the parent company owning more than 1% of the share capital are:

| Shareholder | Ordinary shares | B-shares | C- shares | D- shares | Number of shares | Ownership |
|---|---|---|---|---|---|---|
| Ratos AB | 10 673 887 | 5 410 184 | 1 973 943 | 499 987 | 18 558 001 | 95.58 % |
| FruGolino AS | 280 312 | 0 | 0 | 0 | 280 312 | 1.44 % |
| Others | 557 196 | 16 412 | 3 149 | 1 177 | 577 934 | 2.98 % |
| **Total** | **11 511 395** | **5 426 596** | **1 977 092** | **501 164** | **19 416 247** | **100.00 %** |

**Note 17 – Events after the balance sheet date**

Open Gate Capital has, with effect from 28 February 2018, acquired all shares in Jøtul AS. New financing agreements have been entered into in connection with the change in ownership, in addition to shareholder loans and loans to credit institutions being transferred to the new owner in connection with the change in ownership. The new capital structure means that capital adequacy has improved.

**Note 18 – Related parties**

The company is controlled by Kamin Intressenter AB, a company which is 100% owned by Ratos AB (listed on the Stockholm stock exchange in Sweden), and which owns 95.58% of the company's shares. The remaining 4.42% of the shares are owned by various shareholders. Kamin Intressenter AB have in 2018 sold the shares to Open Gate Capital.

Information about and remuneration to leading employees are shown in note 4 Employee benefits expense.

In 2006, the company sold the factory building and office building with a leaseback term of 20 years, with an option for an additional 20 years, to a consortium that established two limited companies for the purpose of owning and operating the properties. In 2012, the Group used its option to extend the lease agreement on opening a new warehouse and manufacturing facility. The shareholders of Jøtul AS, leading employees, the Board or other key persons do not own any interest in these limited companies.

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# INDEPENDENT AUDITOR'S REPORT

To the Annual Shareholders' Meeting of Jøtul AS

## Report on the audit of the financial statements

### Opinion

We have audited the financial statements of Jøtul AS comprising the financial statements of the parent company and the Group. The financial statements of the parent company comprise the balance sheet as at 31 December 2017, the income statement and statement of cash flows for the year then ended and notes to the financial statements, including a summary of significant accounting policies. The consolidated financial statements comprise the balance sheet as at 31 December 2017, the income statement, statements of comprehensive income, cash flows and changes in equity for the year then ended and notes to the financial statements, including a summary of significant accounting policies.

In our opinion,

- the financial statements are prepared in accordance with the law and regulations;
- the financial statements present fairly, in all material respects, the financial position of the parent company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway;
- the consolidated financial statements present fairly, in all material respects the financial position of the Group as at 31 December 2017 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

### Basis for opinion

We conducted our audit in accordance with laws, regulations, and auditing standards and practices generally accepted in Norway, including International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Company and the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in Norway, and we have fulfilled our ethical responsibilities as required by law and regulations. We have also complied with our other ethical obligations in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Other information

Other information consists of the information included in the Company's annua! report other than the financial statements and our auditor's report thereon. The Board of Directors and Chief Executive Officer (management) are responsible for the other information. Our opinion on the financial statements does not cover the other information, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information, and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of management for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the Norwegian Accounting Act and accounting standards and practices generally accepted in Norway for the financial statements of the parent company and International Financial Reporting Standards as adopted by the EU for the financial statements of the Group, and for such internal central as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with law, regulations and generally accepted auditing principles in Norway, including ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may east significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal central that we identify during aur audit.

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## Report on other legal and regulatory requirements

### Opinion on the Board of Directors' report

Based on our audit of the financial statements as described above, it is our opinion that the information presented in the Baard of Directors' report concerning the financial statements and the going concern assumption is consistent with the financial statements and complies with the law and regulations.

### Opinion on registration and documentation

Based on our audit of the financial statements as described above, and control procedures we have considered necessary in accordance with the International Standard on Assurance Engagements (ISAE) 3000, «Assurance Engagements Other than Audits or Reviews of Historical Financial Information», it is our opinion that management has fulfilled its duty to ensure that the Company's accounting information is properly recorded and documented as required by law and bookkeeping standards and practices accepted in Norway.

Oslo,15 June 2018
ERNST & YOUNG AS

Knut Aker
State Authorised Public Accountant (Norway)

(This translation from Norwegian has been made for information purposes only.)