ANNUAL REPORT 2017

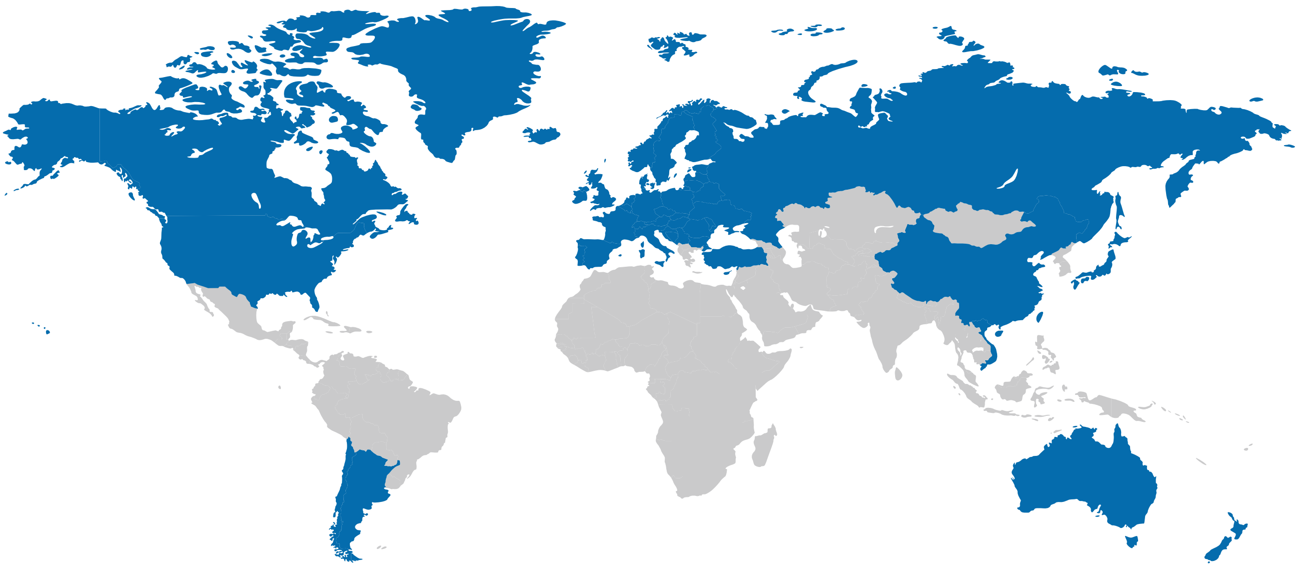
VKR HOLDING A/S

Translation from the approved statutory Danish annual report

VKR HOLDING
INVESTING IN DAYLIGHT, FRESH AIR AND A BETTER ENVIRONMENT

Front page: VELUX roof windows and VELFAC sliding door in a Danish residence. Photo: Jesper Jørgen Fotografi, 2017

THE VKR GROUP AT A GLANCE



18.6 BILLION DKK

Revenue of DKK 18.6 billion up by 3% (2016: DKK 18.1 billion)

2.8 BILLION DKK

Earnings before amortisation (EBITA) of DKK 2.8 billion (2016: DKK 3.1 billion)

2.5 BILLION DKK

Cash flow from operating activities after tax of DKK 2.5 billion (2016: DKK 3.0 billion)

81%

Solidity remains very high with an equity ratio of 81% (2016: 80%)

15%

EBITA margin 15% (2016: 17%)

39%

Return on capital employed of 39% (2016: 44%)

VELUX flat roof window with curved glass in a Danish residence.
Photo: Jesper Jørgen Fotografi, 2017

CONTENTS

REVENUE GROWTH AND INVESTMENTS IN THE FUTURE

The VKR Group's revenue reached a record of DKK 18.6 billion in 2017. As expected, results for the year were slightly below the record results in the anniversary year 2016. The planned initiatives and activities for 2017 were carried out, and consequently, the results are considered satisfactory. The performance is due to strong earnings from the sale of roof windows and vertical windows and solid returns on financial investments. In contrast, it was a challenging year for activities within solar thermal energy.

The VKR Group's strategy is to continually develop the market position of its business areas. In 2017, significant investments were made in the development of new products, new production and logistics facilities and in IT to support business processes internally and externally. These initiatives have resulted in a significant increase in both costs and investments in fixed assets. In terms of acquisitions, we retain our pursuit of opportunities to either strengthen current businesses or to enter new business areas within daylight, fresh air and a better environment.

The construction industry has been stimulated by a favourable macroeconomic environment; while depreciating currencies, in particular GBP against DKK, had a negative impact on the Group.

Business areas

VKR Holding is a holding and investment company whose objective is to create value through ownership of companies and financial investments. The VKR Group's primary activities are the ownership of companies within development, production and sale of roof windows and vertical windows. Furthermore, the Group's activities include development, sales and advisory services within large-scale solar thermal energy systems as well as managing a financial portfolio. The Group's activities within ventilation were discontinued following the divestment of Monodraught Ltd. on 30 June 2017 after 10 years of ownership.

Focus on the digital user experience within roof windows

The VELUX Group launched a new strategy in 2017 that will guide the Company's development the next four years. The most important goal of the strategy is increased focus on growth in the core business. In addition, the strategy emphasises continued focus on first-class quality and on strengthening the position in sales to the commercial segment. Moreover, the strategy includes further enhancement of the digital customer journey. This will happen in close cooperation with the tech company Netatmo S.A.S. on developing Smart Home solutions (VELUX ACTIVE). In the beginning of 2018, the VELUX Group is also launching the MyDaylight app to enable users to simulate their home filled with daylight through VELUX roof windows.

THE VKR GROUP AT 31 DECEMBER 2017

VKR

Roof windows & skylights

- VELUX
- altaterra

Vertical windows

- DOVISTA windows and doors
- VELFAC
- rationel windows & doors
- SP Fönster
- Trarydfönster – Vår insikt ger dig bättre utsi
- Mockfjärds Fönstermästaren
- SNIDEX
- natre vinduer
- Lian
- OH – all doors open
- West Port – high performance wood windows & doors

Solar thermal energy

- ARCON SUNMARK

CONSOLIDATED FINANCIAL HIGHLIGHTS

Key figures (DKKm)	2017	2016	2015	2014	2013
Revenue	18,648	18,125	17,734	16,412	16,414
Earnings before depreciation (EBITDA)	3,324	3,556	3,743	2,950	2,272
Earnings before goodwill amortisation (EBITA)	2,849	3,095	2,900	2,011	1,335
Earnings before financial items and tax (EBIT)	2,820	3,014	2,804	1,916	1,190
Net financials	458	462	-17	-3	62
Profit after tax	2,532	2,613	2,004	1,340	788
Investment in tangible fixed assets (net)	864	238	503	244	594
Free cash flow before tax	2,164	3,264	3,235	2,880	2,225
Total assets	19,720	17,940	16,060	14,550	17,318
Equity	15,948	14,276	12,522	11,180	14,144
Financial ratios (%)					
EBITA margin	15.3	17.1	16.4	12.3	8.1
Return on capital employed	39.2	43.7	39.2	24.9	14.5
Equity ratio	80.9	79.6	76.8	76.8	81.7
Average number of employees	14,764	13,885	13,644	13,444	14,519

Financial ratios have been prepared in accordance with the Danish Finance Society's recommendations. Reference is made to the accounting policies.

Growth and strategic acquisitions within vertical windows

In 2017, the DOVISTA Group achieved satisfactory growth and launched a new strategy focusing on increased utilisation of cross-functional synergies. Growth was mainly organic, supplemented by a couple of strategic acquisitions: DOVISTA A/S acquired 100% of Trenor Vinduer AS, to support the Norwegian activities. The company also entered a joint venture by acquiring 50% of the Finnish company, Kurikka Timber OY – a manufacturer of wood components for windows – to strengthen the cooperation with a key supplier. Due to high projected growth, the company broke ground for the construction of a new factory in Lithuania that will increase manufacturing capacity. The construction of the factory is one of the largest foreign investments in Lithuania. In addition, the implementation of a new ERP system was initiated to ensure that VELFAC and Rationel Windows can also meet the customers' future demands.

Challenging year for large-scale solar thermal energy systems

Arcon-Sunmark's business model is based on large projects and consequently the company may experience large fluctuations in revenue and results from year to year. This was the case in 2017, which was a disappointing year following the record-breaking year 2016. Arcon-Sunmark's primary challenge was a sharp decline in domestic sales due to energy policy uncertainties in Denmark that could not be offset by international sales due to longer than expected planning horizon of international projects.

Going forward, the successful internationalisation of the sale and installation of environmentally sustainable large-scale solar thermal energy plants is essential to Arcon-Sunmark's development. Despite the challenging year, the trend is expected to be reversed in 2018. Consequently, increased order intake for district heating projects in Denmark, Central Europe and China is expected.

Development in financial position and activities

The results for 2017 were realised by executing the Group's robust long-term strategies. The VKR Group's revenue increased compared to 2016, and the Group realised results in line with expectations.

Revenue and results of operation

The total revenue of the VKR Group amounted to DKK 18.6 billion in 2017, which corresponds to a growth rate of 2.9% compared to the previous year and is a new record. The main growth factor was increased sales of roof windows and vertical windows. Growth in 2017 was mainly driven by Western Europe and the US. In contrast, sales within large-scale solar thermal energy declined.

Earnings before interest, depreciation and amortisation (EBITDA) amounted to DKK 3.3 billion in 2017 against DKK 3.6 billion in the previous year due to the planned increase in capacity costs to support future growth prospects and market positions of the business areas.

Earnings after depreciation (EBITA) amounted to DKK 2.8 billion in 2017, corresponding to a profit margin (EBITA %) of 15%. In the previous year, EBITA amounted to DKK 3.1 billion, corresponding to a profit margin of 17%.

Operating investments

For 2017, it was decided to increase investments considerably in the VKR Group's business areas. Investments in property, plant and equipment increased by more than 250% from DKK 0.2 billion in 2016 to DKK 0.9 billion in 2017, corresponding to 4.6% of revenue. The increase in investments was primarily driven by the VELUX and DOVISTA Groups.

The VELUX investments primarily related to the establishment of warehouse and logistics facilities in Germany closer to the customers in our main markets. Furthermore, significant investments were made in IT hardware and software to further improve the digital user experience.

The investments in the DOVISTA Group primarily related to production capacity in Poland, establishment of a new manufacturing plant in Lithuania as well as expansion and optimisation of production in Sweden.

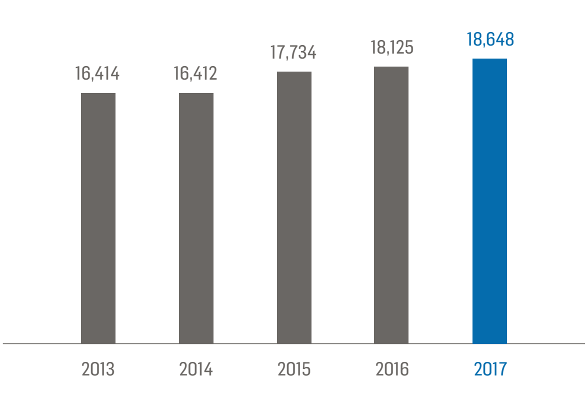
Cash flows from operating activities and working capital

In 2017, cash flows from operating activities amounted to DKK 3.2 billion before tax compared to DKK 3.6 billion in the previous year. Cash flows from operating activities amounted to DKK 2.5 billion after tax compared to DKK 3.0 billion in 2016. The reasons for the decline in cash flows include lower operating profit and a higher level of working capital. The working capital amounted to approx. 8% of revenue at the end of 2017, which was in line with 2016.

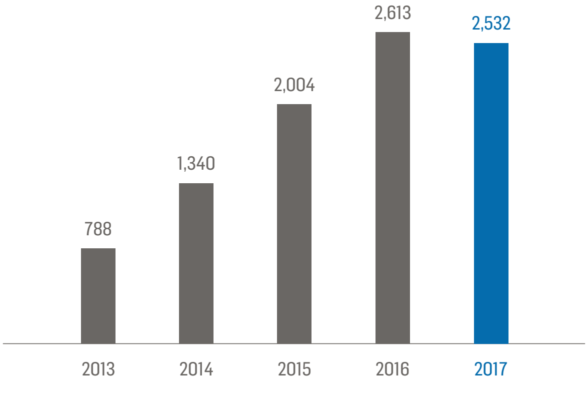
Financial investments

In addition to investments in subsidiaries, VKR Holding A/S has a portfolio of financial investments in various asset classes. The portfolio consists of listed shares, bonds, private equity, properties, etc. The financial investments are managed actively throughout the year to reflect the risk vs. return profile.

REVENUE – DKKm



PROFIT AFTER TAX – DKKm



The year 2017 was yet another good year for the financial portfolio of VKR Holding A/S where especially the listed shares contributed to solid returns. One aspect of the VKR Holding A/S investment strategy is to maintain a certain level of illiquid assets as this is expected to generate higher long-term returns.

Taxation

The income tax expense for 2017 amounted to DKK 0.8 billion compared to DKK 0.9 billion in 2016.

Profit for the year

Profit for the year 2017 was at a lower level than last year, which was in line with expectations set out at the publication of the annual report for 2016. Profit after tax was DKK 2.5 billion, 3% lower than the previous year. The decrease in profit is mainly due to a budgeted increase in capacity costs to ensure the market position of the business areas.

The depreciation of particularly GBP against DKK has adversely affected revenue and earnings.

Management considers the annual results for the VKR Group satisfactory. The profit for the year and the Group's overall development were in line with expectations. As budgeted, profit for the year was slightly below last year's record level.

One of the main goals of VKR Holding A/S as a financial investor is to generate returns in line with or exceeding comparable risk-adjusted market returns.

Financial resources

In 2017, the Group's financial portfolio increased to DKK 8.8 billion at 31 December 2017 against DKK 8.2 billion in the previous year. Total assets also increased in 2017 to DKK 19.7 billion at year-end against DKK 17.9 billion in the previous year.

VKR Holding's equity amounted to DKK 15.9 billion at the end of 2017 compared to DKK 14.3 billion in 2016. The equity ratio was just above 81% at the end of 2017. The VKR Group has a large liquid portfolio to support its activities and any relevant acquisitions.

After the annual general meeting in March 2017, ordinary dividend of DKK 1.0 billion was distributed to the shareholders. This level is expected to be maintained at the annual general meeting in March 2018.

Innovation and development activities

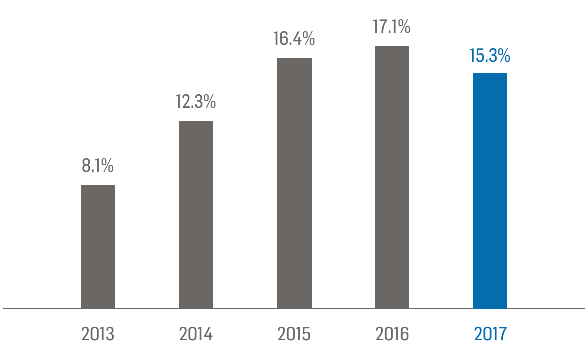
The VKR Group focuses on continuously developing and improving its products to meet or exceed ever stricter energy requirements to new construction and renovation of existing buildings. In 2017, the Group's focus remained on energy efficiency and improved indoor climate through innovation and digitalisation. As planned, more funds were allocated to product development.

VKR Holding A/S owns and manages a total of 2,109 patents. These patents as well as other intellectual property rights are actively and systematically protected.

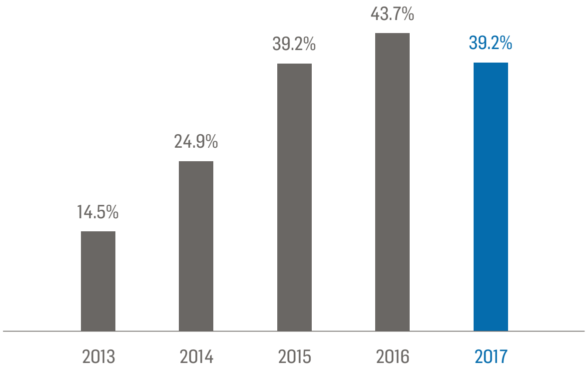
Employees

At the end of 2017, the VKR Group had approx. 14,900 employees against 14,100 the previous year. A significant number of employees work in Poland (approx. 4,300) and Denmark (approx. 2,700), and these countries account for almost 47% of the Group's total number of employees. In addition, the Group has a considerable number of employees in Hungary, Sweden, Germany and France.

EBITA MARGIN – %



RETURN ON CAPITAL EMPLOYED – %



Søren Bjerre-Nielsen, chairman of VKR Holding A/S, was awarded the title of chairman of the year in Denmark in 2017. From the left Mogens Nørgaard Mogensen PwC, Søren Bjerre-Nielsen and last year's award winner Bert Nordberg. Photo: PwC, 2017

Corporate social responsibility and corporate governance

Each individual business area is responsible for ensuring that its business strategy includes measures to strengthen our corporate social responsibility. The business areas manufacture and sell products that contribute significantly to energy efficiency and thus contribute positively to society and the environment during the lifetime of the individual products. The manufacturing process always has an impact on the environment, which the Group continuously strives to reduce.

Recycling takes place whenever possible, and where not possible appropriate waste disposal is always a priority. We also maintain a strong focus on occupational safety and on meeting health and safety standards for the Group's employees. The statutory corporate social responsibility report for the financial year 2017 (in accordance with section 99a of the Danish Financial Statements Act) is available at the website (see https://vkr-holding.com/vkr/csr/?lang=en).

VKR Holding A/S acceded to the UN Global Compact in 2016 and submitted its first Communication on Progress (COP) in 2017. Going forward, a COP report will be prepared annually, giving an account of the progress of VKR Holding A/S and the Group on meeting the stated goals. The COP report for 2016 is available at the VKR Holding website.

Goals for diversity

The employees and board members of VKR Holding A/S are always selected based on qualifications and skills. We are therefore proud that Søren Bjerre-Nielsen was awarded chairman of the year in Denmark in 2017 for his work for VKR Holding A/S.

VKR Holding A/S supports gender equality and diversity, which is manifested in our goal for diversity on the Board of Directors. At the end of 2017, the Board of Directors had one female representative. This corresponds to 20% of the members of the Board of Directors. The goal of VKR Holding A/S is that the Board of Directors should always have at least one female member.

In VKR Holding A/S and the business areas, we have increased focus on recruiting talented women for management and board positions, and we were pleased to appoint the first female board member in DOVISTA A/S in 2017.

In VELUX A/S, which represents the Group's largest business area, the gender ratio on the Board of Directors appointed by the annual general meeting remains equal.

Risk factors

The VKR Group's activities are affected by cyclical developments and are dependent on the ability to maintain strong market positions through, among other things, continued product development and optimisation of the entire value chain. The Group as a whole as well as the underlying business areas are considered to be reasonably positioned in relevant markets.

The activity level for private and public construction is one of the VKR Group's largest risks in general. The underlying growth drivers in the construction industry stem from macroeconomic conditions in the individual markets where the business areas operate. In 2017, the Group saw a slightly increasing activity level in its main markets. The outcome of the BREXIT negotiations may affect sales opportunities and the GBP/DKK rate, which may have an impact since Great Britain is an important market for the VKR Group.

Continued development of construction legislation and the move towards energy-efficient buildings and renewable energy sources are important areas that the business areas of VKR Holding A/S continually focus on; these topics also largely set the framework for future business opportunities. Ambitious political goals regarding energy-efficient solutions as well as open competition are in the interest of the Group.

General risks

The VKR Group operates in 41 countries and is exposed to several financial risks related to the Group's income statement and equity:

- Interest rate risk
- Foreign exchange risk
- Credit risk
- Liquidity risk
- Product quality and product liability

Interest rate risk

The VKR Group only occasionally takes on debt, the interest rate risk is therefore limited compared to total assets. For financial investments, movements in interest rates are a significant factor in terms of fluctuations in the value of the bond portfolio and derived effects on other asset classes. The Group's interest rate risk is assessed on an ongoing basis in relation to managing the financial portfolio.

Foreign exchange risk

Operating currency risks occur for both sales and manufacturing activities in several markets using foreign currencies. A very significant part of the VKR Group's business is denominated in EUR and due to the Danish fixed exchange rate policy, there is only minor fluctuations against DKK, and consequently, no significant currency risk. The largest exposures in terms of risk are related to GBP and PLN.

The Group does not engage in hedging of operational foreign currency exposure.

Credit risk

Customer receivables are distributed widely in terms of geography and the number of customer relationships. It is our overall assessment that the Group is not exposed to any major credit risk. Standard procedures for managing customers' credit agreements have been established.

The large geographical spread of the Company's business activities means that VKR Holding A/S cooperates with a number of banks throughout the world. As a rule, VKR Holding A/S prefers large, well-renowned banks to provide required services and minimise the risk related to placing cash and cash equivalents. The largest of these banks are credit rated on an ongoing basis.

Liquidity risk

The VKR Group has sufficient cash available. The liquidity of the business areas is monitored on an ongoing basis. The majority of cash is concentrated in VKR Holding A/S via various liquidity tools, including cash pools. This means that most of the companies in the Group have relatively low balances with external banks. Thus, VKR Holding A/S acts as an internal bank to the business areas.

Product quality and product liability

The VKR Group is highly dependent on the quality of the products sold by the business areas. Failing to maintain high quality standards may expose the Group to reputational risks, increased warranty expenses and lower earnings. Moreover, high quality is necessary to ensure and improve market positions. It is therefore a large potential cost burden if products do not live up to the expected quality. The risk is managed by comprehensive quality and environmental management systems which monitor products from own production as well as from suppliers. Continuous thorough testing of the products is carried out both internally and by external independent and certified testing institutes.

Working environment

All the Group's business areas have a strong focus on a good and safe working environment. Due to the high number of employees in the production facilities, special efforts are made to safeguard production workers in line with the international standard on working environment OHSAS 18001. For specific figures, reference is made to the corporate social responsibility reports of each business area.

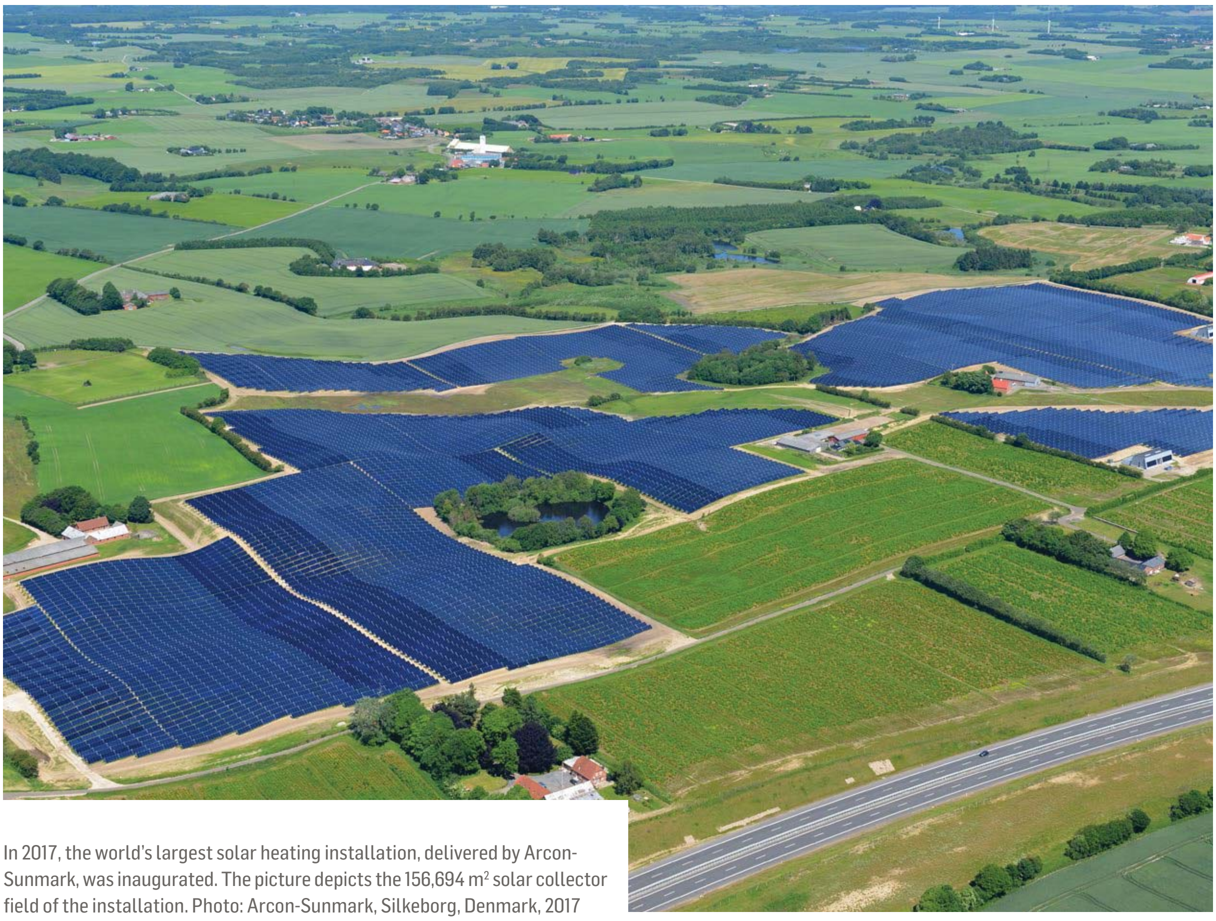
Outlook for 2018

Overall, the activity level of the VKR Group is expected to increase in 2018. The Group's business areas continually strive to strengthen their market positions. Consequently, revenue is expected to increase. The higher level of costs driven by the VELUX and DOVISTA business areas will be maintained. Operating results for the Group are anticipated in line with 2017. The high level of investments in 2017 is expected to decrease, contributing to an expected rise in cash flows in 2018.

The acquisition strategy from 2016 will continue unchanged. The VKR Group will actively pursue relevant acquisitions for both present and new business areas within daylight, fresh air and better environment.

No large acquisitions were made outside the current business areas in 2017. However, DOVISTA A/S acquired the Norwegian company Trenor Vinduer AS and 50% of the Finnish company Kurikka Timber OY.

Risks related to political and macroeconomic developments are assessed to be at normal levels. The Management of the VKR Group fully realises the importance of having an adaptable business model capable of handling changes in market and framework conditions.



In 2017, the world's largest solar heating installation, delivered by Arcon-Sunmark, was inaugurated. The picture depicts the 156,694 m^2 solar collector field of the installation. Photo: Arcon-Sunmark, Silkeborg, Denmark, 2017

VELUX Modular Skylight in German Center for Neurodegenerative Diseases in Bonn, Germany.
Photo: Jesper Blæsild, 2017

HOUSING FOR URBANISATION

DOVISTA® windows and doors

Global urbanisation is becoming an increasingly evident trend, also in Northern Europe where many people are moving into major cities. This drives up housing prices making it increasingly difficult for low-income groups to take up or even maintain residence in the city. Therefore, several research projects and experiments seek to find alternative housing types that can maintain diversity in the demographic structure of cities.

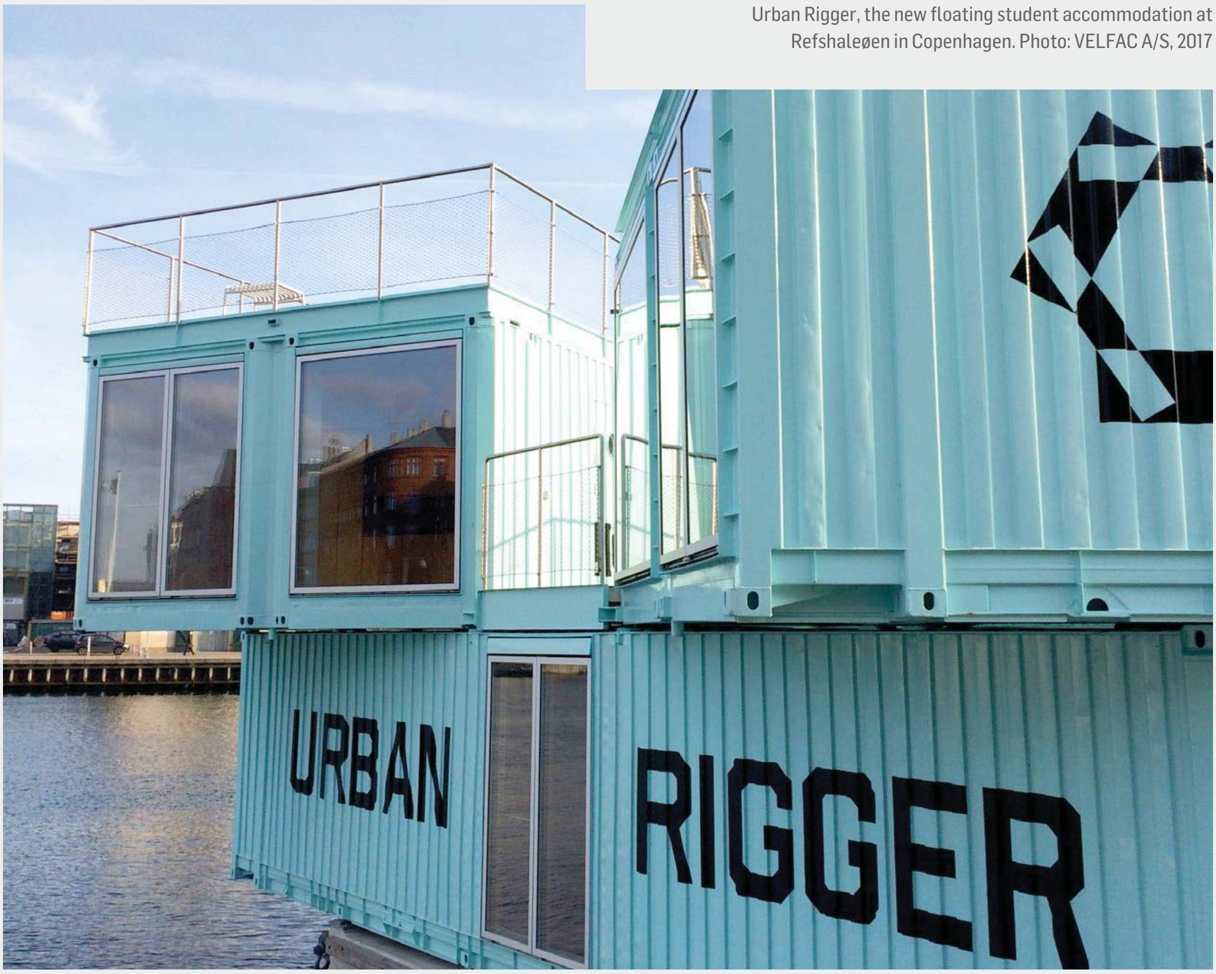
This includes exploring the possibility to let people live in converted shipping containers. One of the more spectacular projects is in the port of Copenhagen and consists of student accommodation in converted shipping containers on the water. The project is called Urban Rigger and includes among other things vertical windows from VELFAC. Urban Rigger has proven to be a success, and consequently similar housing projects in converted shipping containers are now popping up all over Copenhagen – and in many other major cities.

“Housing projects in converted shipping containers are now popping up all over Copenhagen – and in many other major cities.

1,100

tons of CO_2 is saved by repurposing worn-out containers instead of building traditional houses

Urban Rigger, the new floating student accommodation at Refshaleøen in Copenhagen. Photo: VELFAC A/S, 2017



SUSTAINABLE WOOD

When the VELUX Group develops and manufactures roof windows, special care is taken to maximise the use of sustainable raw materials and minimise the use of hazardous substances.

In 2017, the VELUX Group increased the share of sustainable and certified wood from 98% to 99.5%*. The last half per cent is purchased as controlled wood in accordance with the FSC standard. This means that the origin of all wood used is known and monitored as part of a programme for planting new trees. In comparison, only approx. 30% of global wood sales originate from sustainable and certified forests.

To maintain FSC and PEFC certificates, 38 internal control visits were made in 2017. External controls and follow-ups are now an integral part of the purchase system including an annual meeting with suppliers and monthly follow-up. This contributes to the VELUX Group's general performance and compliance with the two certification schemes.

The VELUX Group has been a member of FSC International since 2016. In 2017, VELUX A/S hosted FSC training and knowledge sharing for other companies to support the ongoing development of sustainable supply chains, also outside its own business area and sources of supply.

Performance

- 99.5%* of the wood in VELUX windows originates from certified sustainable forests. The last half per cent is procured as "controlled" wood in accordance with FSC standards. All suppliers are PEFC or FSC certified or both.
- All activities comply with the EU Timber Regulation (EUTR).
- All wood is purchased as close to the VELUX Group's production plants as possible. Wood is purchased from Norway, Sweden, Finland, Estonia, Russia, Poland, France, and the US.
- All wood shavings and wood chippings from production are recycled or used for heating.

Quality control and production of VELUX roof windows.
Photo: Christian Alsing, 2015

99.5*

per cent of VELUX production wood originates from certified sustainable forests

*Applies to the production of VELUX windows in Europe.

Refurbishment of "Odense Offentlige Slagtehuse" in respect of the original architecture with customised VELFAC Classic vertical windows. Photo: VELFAC A/S, 2017

NEW USE OF HISTORIC BUILDINGS

Another way to increase housing in city centres while maintaining local history and preserving building culture is to convert industrial buildings into housing. In Odense city centre the "Odense Offentlige Slagtehuse" building, a former slaughterhouse built in 1928, has just been fully converted into 119 unique modern apartments for young people.

To ensure daylight, good acoustics and energy efficiency, the window solutions were the subject of close dialogue between the architect, the turnkey contractor and VELFAC A/S from the very beginning. Based on advice from VELFAC A/S, the windows in the complex main building were designed based on the VELFAC Classic windows series but with customised sash bars and mullions.

Daylight was a particularly important theme in the main building which is very compact due to very deep walls. After installation, daylight calculations and measurements have been made for each individual room to ensure and document that the quantity of light lived up to the required level.

> "The windows in the complex main building were designed based on the windows series VELFAC Classic but with customised sash bars and mullions.

119

unique and modern youth apartments in Odense

Following investments of DKK 220 million in expanded production and new warehouse facilities, The VELUX Group now has a total of 88,000 square metres under roof in Sonneborn. Photo: Kristin Geist, 2017

THE VELUX GROUP MOVES CLOSER TO THE CUSTOMERS BY BUILDING A NEW WAREHOUSE AND DISTRIBUTION CENTRE

VELUX®

Going forward, Sonneborn in Germany will join Kolding in Denmark as warehouse and logistics centre for the VELUX Group in Central and Northern Europe. Investments of DKK 220 million were made in new warehouse facilities and expanded production capacity in Sonneborn in 2017.

The VELUX Group is currently reorganising its warehouse and logistics set-up to be closer to its customers and thus reduce transportation needs and improve efficiency. The VELUX Group already has warehouse and logistics facilities in both Sonneborn and Kolding. But where majority of stock was previously located in Kolding, from 2018, it will move to Sonneborn, which is located centrally in relation to the VELUX Group's large Central European markets. Going forward, Kolding will serve as warehouse and logistics centre for the Nordic region, and will remain the location of the European centre of excellence for logistics.

In addition to the new set-up in the warehouse and logistics area, changes will also be made in manufacturing. The production of customised windows will be moved to Sonneborn to enable even faster delivery of special products requested by the customers.

Investments of DKK 220 million have been made in the new warehouse facilities and expanded production in Sonneborn in 2017, where the VELUX Group now has a total of 88,000 square metres under roof. In 2017, the production plant was renamed JTJ Sonneborn after the VELUX Group's retiring CEO, Jørgen Tang-Jensen.

220

million DKK were invested in warehouse and expanded production facilities in Sonneborn

The headquarters of VKR Holding A/S in Hørsholm, Denmark.
Photo: Janus König Frost, 2017

COMPANY INFORMATION

VKR Holding A/S
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2970 Hørsholm
Denmark

Telephone
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Website
www.vkr-holding.com

Company reg.no. (CVR)
30830415

Registered office
Hørsholm

Founded
7 February 1968

Financial year
1 January – 31 December

Financial statements no.
50

Board of Directors

Søren Bjerre-Nielsen
Chairman

Thomas Thune Andersen
Vice-chairman

Anne Broeng

Oscar Mosgaard

Steen Riisgaard

Executive Management

Mads Kann-Rasmussen
CEO

Auditor

Ernst & Young
Godkendt
Revisionspartnerselskab
Osvald Helmuths vej 4
2000 Frederiksberg
Denmark

Annual general meeting

The annual general meeting will be held on 15 March 2018 at Breeltevej 18, Hørsholm, Denmark.

MANAGEMENT'S STATEMENT

The Board of Directors and the Executive Management have today discussed and approved the annual report of VKR Holding A/S for 2017.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the Group's and the parent company's assets, equity, liabilities, and financial position at 31 December 2017 and of the results of the Group's and the parent company's operations and the consolidated cash flows for the financial year 1 January – 31 December 2017.

Further, in our opinion, the Management's review gives a fair review of the development in the Group's and the parent company's operations and financial matters, the net profit for the year and the Group's and the parent company's financial position.

We recommend that the annual report be approved at the annual general meeting.

Hørsholm, 5 March 2018

Executive Management

Mads Kann-Rasmussen
CEO

Board of Directors

Søren Bjerre-Nielsen
Chairman

Anne Broeng

Thomas Thune Andersen
Vice-chairman

Oscar Mosgaard

Steen Riisgaard

INDEPENDENT AUDITORS' REPORT

To the shareholders of VKR Holding A/S

Opinion

We have audited the consolidated financial statements and the parent company financial statements of VKR Holding A/S for the financial year 1 January - 31 December 2017, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies, for the Group and the parent company, and a consolidated cash flow statement. The consolidated financial statements and the parent company financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the consolidated financial statements and the parent company financial statements give a true and fair view of the financial position of the Group and the parent company at 31 December 2017 and of the results of the Group's and the parent company's operations as well as the consolidated cash flows for the financial year 1 January - 31 December 2017 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements and the parent company financial statements" (hereinafter collectively referred to as "the financial statements") section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for financial statements

Management is responsible for the preparation of consolidated financial statements and parent company financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control 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 Group's and the parent 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 in preparing the financial statements unless Management either intends to liquidate the Group or 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, 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 Group's and the parent 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 in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's and the parent 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 conclusion is based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Statement on Management's review

Management is responsible for Management's review.

Our opinion on the financial statements does not cover Management's review, 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 Management's review and, in doing so, consider whether Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of Management's review.

Copenhagen, 5 March 2018

Ernst & Young
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Jesper Koefoed
State Authorised
Public Accountant
mne11689

Søren Smedegaard Hvid
State Authorised
Public Accountant
mne31450

In 2017, the exhibition about the founder of the VKR Group, Villum Kann Rasmussen, was opened.
From the left Thomas Rejnhold Kjær and Christa Marie Elnegaard. Photo: Kim Wendt, 2017

Financial statements 2017

INCOME STATEMENT 1 JANUARY – 31 DECEMBER

		GROUP		PARENT COMPANY	
DKKm	**Note**	**2017**	**2016**	**2017**	**2016**
Revenue	2	18,648	18,125		
Changes in inventories of manufactured goods, work in progress and goods for resale		72	27		
Work performed for own account and capitalised		22	18		
Other operating income		80	149	2,178	2,231
		18,822	18,320	2,178	2,231
Costs of raw materials, consumables and goods for resale		5,911	5,754		
Other external costs	3	4,800	4,586	552	507
Employee costs	4	4,787	4,424	47	52
Depreciation, amortisation and impairment losses		503	541	28	35
Profit before financial items and tax		2,820	3,014	1,551	1,637
Profit after tax in subsidiaries	11			1,002	942
Profit after tax in associates	11	26	12	25	10
Financial income	5	707	561	589	547
Financial expenses	6	248	99	212	65
Profit before tax		3,304	3,488	2,955	3,072
Tax on profit for the year	7	773	875	423	459
Net profit for the year	8	**2,532**	**2,613**	**2,532**	**2,613**

Distribution of profit:

DKKm				
Proposed dividend			1,000	1,000
Transferred to equity reserves			1,532	1,613
Total distribution of profit			2,532	2,613

BALANCE SHEET AT 31 DECEMBER

		GROUP		PARENT COMPANY	
DKKm	**NOTE**	**2017**	**2016**	**2017**	**2016**
ASSETS					
Fixed assets					
Intangible fixed assets	9				
Completed development projects		0	0		
Acquired patents, licences, trademarks etc.		67	22	2	5
Goodwill		199	190		
Development projects in course of construction		137	113		
Total intangible fixed assets		403	324	2	5
Tangible fixed assets	10				
Land and buildings		2,239	2,122	332	338
Plant and machinery		1,284	1,138		
Other fixtures and fittings, tools and equipment		168	148	7	6
Tangible fixed assets in course of construction		393	166	5	14
Total tangible fixed assets		4,085	3,573	344	358
Investments	11				
Investments in subsidiaries				3,607	3,384
Investments in associates		261	132	228	115
Receivables from associates		2	5		2
Other investments		1,125	935	949	738
Other long-term receivables		83	63	13	5
Total investments		1,470	1,135	4,798	4,244
Total fixed assets		5,957	5,033	5,144	4,607
Current assets					
Inventories					
Raw materials and consumables		614	589		
Work in progress		440	411		
Manufactured goods and goods for resale		1,303	1,251		
Total inventories		2,357	2,251		
Receivables					
Trade receivables		1,656	1,513		
Contract work in progress	12	34	36		
Receivables from subsidiaries				3,164	2,714
Corporation tax receivables		136	86	80	
Deferred tax assets	13	157	189		8
Other short-term receivables		425	419	28	28
Prepayments		198	181	1	1
Total receivables		2,607	2,425	3,273	2,751
Marketable securities		7,571	7,272	7,307	7,162
Cash and bank balances		1,227	958	734	138
Total current assets		13,762	12,907	11,314	10,051
TOTAL ASSETS		**19,720**	**17,940**	**16,457**	**14,658**

BALANCE SHEET AT 31 DECEMBER

		GROUP		PARENT COMPANY	
DKKm	NOTE	2017	2016	2017	2016
EQUITY AND LIABILITIES					
Equity					
Share capital	14	110	110	110	110
Retained earnings		14,838	13,166	14,838	13,166
Proposed dividend		1,000	1,000	1,000	1,000
Total equity		15,948	14,276	15,948	14,276
Provisions					
Deferred tax liabilities	15	77	88	9	
Other provisions	16	371	413		
Total provisions		448	501	9	
Liabilities other than provisions					
Non-current liabilities					
Total non-current liabilities	17	47	50		
Current liabilities					
Current portion of non-current liabilities	17	4	8		
Credit institutions		0	54		
Prepayments received from customers		107	93		
Trade payables		1,113	1,014	10	0
Payables to subsidiaries				423	268
Payables to associates		19	1		
Corporation tax		55	68		40
Other short-term debt		1,979	1,875	68	74
Total current liabilities		3,277	3,113	501	382
Total liabilities		3,324	3,163	501	382
TOTAL EQUITY AND LIABILITIES		**19,720**	**17,940**	**16,457**	**14,658**

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EQUITY STATEMENT

GROUP

DKKm	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2017	110	13,166	1,000	14,276
Dividend paid			-1,000	-1,000
Exchange rate adjustments		-75		-75
Actuarial losses regarding pension obligations		13		13
Tax on equity transactions		-2		-2
Other adjustments		204		204
Net profit for the year carried forward		1,532	1,000	2,532
Equity at 31 December 2017	**110**	**14,838**	**1,000**	**15,948**

PARENT COMPANY

DKKm	Share capital	Retained earnings	Proposed dividend	Total
Equity at 1 January 2017	110	13,166	1,000	14,276
Dividend paid			-1,000	-1,000
Exchange rate adjustments		-59		-59
Adjustment of forward exchange contracts at fair value		-6		-6
Tax on equity transactions		1		1
Other adjustments		204		204
Net profit for the year carried forward		1,532	1,000	2,532
Equity at 31 December 2017	**110**	**14,838**	**1,000**	**15,948**

CASH FLOW STATEMENT

	GROUP	
DKKm	**2017**	**2016**
Cash flow from operations before changes in working capital	3,294	3,453
Changes in working capital	-134	146
Corporation tax paid	-614	-610
Cash flow from operating activities	**2,546**	**2,990**
Acquisition and disposal of enterprises and activities	-42	-63
Acquisition and disposal of intangible and tangible fixed assets	-954	-272
Cash flow to operating investment activities	-996	-335
Purchase and sale of marketable securities	-354	-2,054
Cash flow from investment activities	**-1,349**	**-2,389**
Financial income and financial expenses	170	142
Net proceeds from loans	-122	9
Dividends from associates	12	3
Dividend paid	-1,000	-1,000
Cash flow from financing activities	**-939**	**-847**
Total cash flow for the year	**258**	**-246**
Cash and bank balances, beginning of year	958	1,166
Exchange rate adjustments	11	39
Cash and bank balances, year end	**1,227**	**958**

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1 Accounting policies

The annual report of VKR Holding A/S for 2017 has been prepared in accordance with the provisions applying to accounting class C (large) enterprises under the Danish Financial Statements Act.

The accounting policies used in the preparation of the financial statements are consistent with those of last year except for the new rules regarding business combinations, including intra-group business combinations. The accounting policies are adjusted according to the present interpretations of the Danish Financial Statements Act within this topic. The adjustments are effective from 2017 onwards and do not give rise to correction of comparative figures.

The financial statements are presented in Danish kroner rounded to the nearest million, and due to this rounding, the sum of the individual items may differ from the totals.

Consolidated financial statements

Consolidation

On consolidation of the parent company, VKR Holding A/S, and the subsidiaries, intra-group income and expenses, shareholdings, intra-group balances and dividends, and realised and unrealised gains and losses on intra-group transactions are eliminated.

Investments in subsidiaries are set off against the proportionate share of the subsidiaries' fair value of net assets and liabilities at the acquisition date.

Business combinations

Enterprises acquired or formed during the year are recognised in the parent company's financial statements from the date of acquisition or formation. Enterprises disposed of are recognised in the parent company's financial statements up to the date of disposal. Comparative figures are not restated for newly acquired enterprises. Disposed activities are presented separately.

The acquisition date is the date on which the Company obtains control of the acquiree.

Acquisitions of enterprises are accounted for using the purchase method, if controlling influence is achieved upon acquisition. Identifiable assets and liabilities of the acquired companies are measured at fair value at the date of acquisition. Identifiable intangible assets are recognised if they are separable or arise from contractual right. Deferred tax is recognised by the revaluations made.

The excess of the total consideration transferred, the value of non-controlling interests and the fair value of any equity investments previously held in the acquired enterprise over the total identifiable assets and liabilities measured at fair value is recognised as goodwill under Investments in subsidiaries or Investments in associated companies.

Goodwill is amortised on a straight-line basis in the income statement based on an individual assessment of the economic life; usually between 5 and 15 years.

Any deficit of the total consideration transferred (badwill) is recognised in the income statement at the acquisition date.

The consideration transferred as payment for the acquired enterprise consists of the fair value of assets transferred, liabilities assumed and equity instruments issued. If contingent consideration depends on future events, or the performance of contractual obligations forms part of the total consideration transferred, this part of the consideration transferred is recognised at fair value at the date of acquisition. Fair value changes to contingent considerations are recognised in the income statement until final settlement.

Transactions costs incurred as part of the acquisition are recognised in the income statement as incurred.

If determination of the consideration transferred or measurement of the identifiable assets, liabilities or contingent liabilities is uncertain at the date of acquisition, initial recognition is made at provisional fair values. Adjustments to the provisional amounts (including change of goodwill) may be made retrospectively for up to 12 months following the date of acquisition and comparative figures are restated. After the end of the 12-month period, any further adjustments are recognised as errors.

Whenever the disposal of a subsidiary leads to a loss of controlling influence, the profit or loss is calculated as the difference between the selling price minus cost of sales and the book value. If the Company retains any equity holdings in the enterprise sold, the remaining shares are remeasured at fair value.

If put options are issued as part of the consideration transferred regarding a business combination, the put options received by the minority interests are considered redeemed at the acquisition date. The minority interest is removed, and a liability is recognised at fair value at initial measurement. The fair value is calculated as the present value of the exercise price of the option. The subsequent measurement is carried at amortised cost with ongoing recognition of interest expenses in the income statement and revaluation of goodwill.

Intragroup business combinations

The book value method is used for business combinations, such as purchases and sale of equity holdings, mergers, demergers, transfers of assets, share exchanges etc., which include only companies controlled by the parent company. When using the book value method, the acquisition is

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presumed completed at the date of acquisition, and comparative figures are not restated. The difference between the agreed consideration and the book value of the acquired enterprise is recognised in equity.

Foreign currency translation

Transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Exchange rate differences are recognised in the income statement as financial income and financial expenses.

Monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the time at which the receivable or payable arose or was recognised in the latest annual report is recognised in the income statement as financial income and financial expenses.

On recognition of foreign enterprises, the income statements are translated at average exchange rates, and the balance sheet items are translated at the exchange rates at the balance sheet date. Exchange rate differences arising on translation are recognised directly in equity.

Exchange rate adjustments of intra-group balances with independent foreign enterprises considered part of the total investment in the subsidiary are recognised directly in equity.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently recognised at fair value.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as hedges of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as hedges of future assets or liabilities are recognised in other receivables or other payables and in equity.

If the future transaction results in recognition of assets or liabilities, amounts which were previously recognised in equity are transferred at the cost of the asset or liability, respectively. If the future transaction results in financial income or financial expenses, the amounts which were previously recognised in equity are recognised in the income statement in the period when the hedge affects the results. For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement when they occur.

Income statement

Revenue

Revenue from the sale of goods for resale and finished goods as well as the sale of services is recognised in the income statement provided that delivery and transfer of risk to the buyer have taken place before year end. Contract work in progress is recognised as revenue by reference to the stage of completion. Accordingly, revenue corresponds to the selling price of work performed during the year (the percentage of completion method).

Other operating income and costs

Other operating income and costs comprise items secondary to the activities of the companies, including gains and losses on disposal of intangible and tangible fixed assets.

Other external costs

Other external costs comprise distribution costs and costs relating to sales, advertising, administration, office premises, bad debt losses, operating leases, etc.

Profits/losses from investments in subsidiaries and associates

The proportionate share of the results after tax of the individual subsidiaries is recognised in the income statement of the parent company after full elimination of intra-group profits/losses. The proportionate share of the results after tax of the associates is recognised in both the parent company and the consolidated income statements after elimination of the proportionate share of intra-group profits/losses.

Financial income and financial expenses

Financial income and financial expenses are recognised in the income statement at the amounts relating to the financial year. Financial items include interest income and interest expenses, financing costs of finance leases, realised and unrealised gains and losses on securities, debt and transactions in foreign currencies, etc.

Tax on profit/loss for the year

Tax for the year comprises current tax and deferred tax for the year. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to changes is recognised directly in equity.

Changes in deferred tax as a result of changes in tax rates are recognised in the income statement.

The Company is jointly taxed with Danish subsidiaries. The tax effect of the joint taxation with the subsidiaries is allocated between profit- and loss-making companies in proportion to their taxable income (full absorption with refunds for tax losses). The jointly taxed companies are taxed under the on-account tax scheme. The Company manages the joint taxation

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and consequently settles the total Danish tax from the jointly taxed companies' taxable income.

Balance sheet

Intangible fixed assets

Gains and losses from the sale of intangible fixed assets are recognised in the income statement as other operating income or other operating expenses.

Goodwill

Goodwill is measured at cost less accumulated amortisation and is amortised on a straight-line basis over the estimated useful life, which is usually 5-15 years. The amortisation period is determined based on the expected repayment period, and this is longest for strategic acquisitions with strong market position and a long-term earnings profile.

Development projects

Development costs comprise costs, salaries and amortisation directly and indirectly attributable to the companies' development activities. Development projects that are clearly defined, identifiable and with evidenced future utilisation are recognised as intangible fixed assets if there is sufficient assurance that future earnings will be generated. Other development costs are recognised in the income statement as incurred. Capitalised development costs are measured at cost less accumulated amortisation and impairment losses. Development costs are amortised on a straight-line basis over the estimated useful life. The amortisation period is usually 3-5 years.

Patents, licences and software

Patents, licences and software are measured at cost less accumulated amortisation and impairment losses. Patents are amortised on a straight-line basis over the remaining patent period. Licences and software are amortised over the agreement period. For licenses, the period is usually up to 5 years, while software is amortised over 3-5 years. Patents, licences and software are further written down when deemed necessary.

Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation and impairment losses. Tangible fixed assets are written down to the net realisable value if this is lower than the carrying amount. Land is not depreciated. Assets held under finance leases are treated in the same way as the Company's other tangible fixed assets.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

- Buildings 25 years
- Plant and machinery 5-10 years
- Other fixtures and fittings, tools and equipment 3-5 years

Depreciation is calculated taking into account any residual value after useful life and impairment losses. The depreciation period and the residual value are determined at the acquisition date and reassessed annually. If the residual value exceeds the carrying amount, depreciation is discontinued.

Gains and losses from the sale of tangible fixed assets are recognised in the income statement as other operating income or other operating expenses.

Investments

Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured in accordance with the equity method minus or plus unrealised intra-group profits and losses. Subsidiaries and associates with negative net asset values are measured at DKK 0 (nil), and any amounts owed by such enterprises are written down by the parent company's share of the negative net asset value if the amount owed is considered irrecoverable. If the negative net asset value exceeds the amount owed, the remaining amount is recognised as part of the carrying amount and is amortised based on an individual assessment of the useful life.

Other investments

Other investments which do not have fixed expiry dates and are recognised as fixed assets are measured at fair value at the balance sheet date. The fair value represents the market value of the assets forming part of an active market. Other securities which the Company intends to hold to maturity and with fixed expiry dates are recognised at amortised cost.

Current assets

Inventories

Inventories are recognised at cost in accordance with the FIFO method. If the net realisable value is lower than cost, inventories are written down to this lower value. The cost price for goods for resale and raw materials and consumables comprises the purchase price plus delivery costs. The cost price for manufactured goods and work in progress comprises direct and indirect production overheads.

Receivables

Receivables are measured at amortised cost. Write-down is made for bad debt losses.

Contract work in progress

Contract work in progress is measured at the selling price of the work performed minus invoicing on account and expected losses. If the selling price of a construction contract cannot be reliably measured, the selling price is measured at the lower of costs incurred and net realisable value. Selling costs and costs incurred in securing contracts are recognised in the income statement as incurred.

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Prepayments

Prepayments relates to goods and services not yet received and expenses incurred for goods and services which will not be used until the subsequent financial year.

Marketable securities

Listed securities recognised as current assets are measured at fair value at the balance sheet date.

Equity

Dividend

The expected dividend payment for the year is disclosed as a separate item under equity.

Liabilities

Deferred tax

Deferred tax is measured using the balance sheet liability method on differences between the carrying amount and the tax base of assets and liabilities. Deferred tax assets, including the tax value of tax loss carryforwards, are recognised at the expected value of their utilisation. That will be either by elimination in tax on future earnings or against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and at the rates in the respective countries at the balance sheet date expected to be applicable when the deferred tax is expected to become current tax. Changes in deferred tax due to changes in tax rates are recognised in the income statement except for items recognised directly in equity.

Other provisions

Other provisions comprise anticipated costs related to warranties, losses on work in progress, restructurings, pension obligations, etc.

Liabilities other than provisions

Financial liabilities are recognised at the date of borrowing at the proceeds received, net of transaction costs incurred. In subsequent periods, financial liabilities are measured at amortised cost. Premiums/discounts are accrued over the term of the liability. Capitalised obligations on finance leases are recognised as liabilities other than provisions. Other liabilities other than provisions are measured at net realisable value.

Cash flow statement

The cash flow statement shows the Group's cash flow from operating, investing and financing activities for the year, the year's changes in cash and bank balances, and the Group's cash and bank balances at the beginning and end of the year. The cash flow effect of acquisitions and disposals of enterprises is included in the cash flow from investing activities. Cash flow from acquisitions of enterprises is recognised in the cash flow statement from the date of acquisition. Cash flow from disposals of enterprises is recognised up until the date of disposal.

Key figures and Financial ratios

The financial ratios have been calculated in accordance with the Danish Finance Society's recommendations and Financial ratios 2016.

Earnings before financial items and tax (EBIT) correspond to Profit before financial items and tax as shown in the income statement.

The financial ratios mentioned are calculated as follows:

EBITA-margin:

$$\frac{\text{EBITA x 100}}{\text{Revenue}}$$

Return on capital employed:

$$\frac{\text{EBITA x 100}}{\text{Average capital employed including goodwill}}$$

Equity ratio (Solidity):

$$\frac{\text{Equity x 100}}{\text{Total assets}}$$

EBITA:

Earnings before goodwill amortisation, financial items and tax.

Capital employed including goodwill:

Intangible and tangible fixed assets + other receivables + working capital.

Goodwill is recognised at book value + accumulated amortisation.

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2 Revenue

DKKm	GROUP 2017	GROUP 2016
Break-down by geographical segments:		
Europe	16,925	16,511
Rest of the world	1,723	1,614
	18,648	**18,125**

Pursuant to section 96(1) of the Danish Financial Statements Act, revenue is not disclosed by business segments.

3 Fee to auditors appointed at the annual general meeting

	GROUP		PARENT COMPANY	
DKKm	2017	2016	2017	2016
Total fee				
Fee to auditor appointed at the annual general meeting	13	13	1	1
Other auditors	2	1	1	0
	15	14	2	1
The fee can be specified as follows:				
Statutory audit	10	10	0	0
Tax consultancy	3	2	1	1
Other assurance engagements	0	0		0
Non-audit services	2	2	0	0
	15	**14**	**2**	**1**

4 Employee costs

	GROUP		PARENT COMPANY	
DKKm	2017	2016	2017	2016
Wages and salaries	3,937	3,626	43	49
Pensions	344	324	3	3
Other social security costs	506	474	0	0
	4,787	4,424	47	52
Average number of employees (full time)	**14,764**	**13,885**	**40**	**37**

Employee costs comprise remuneration of Management and of the Board of Directors DKK 8 million (2016: Management and Board DKK 17 million in total, including severance payment).

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5 Financial income

	GROUP		PARENT COMPANY	
DKKm	**2017**	**2016**	**2017**	**2016**
Total financial income	**707**	**561**	**589**	**547**

The parent company's interest income from subsidiaries amounted to DKK 21 million (2016: DKK 23 million).

6 Financial expenses

	GROUP		PARENT COMPANY	
DKKm	**2017**	**2016**	**2017**	**2016**
Total financial expenses	**248**	**99**	**212**	**65**

The parent company's interest paid to subsidiaries amounted to DKK 1 million (2016: DKK 0 million).

7 Tax on profit for the year

	GROUP		PARENT COMPANY	
DKKm	**2017**	**2016**	**2017**	**2016**
Current tax for the year	749	760	411	431
Prior year adjustment	-12	11	-4	-9
Deferred tax adjustment for the year	35	104	17	38
	773	**875**	**423**	**459**

The Group's current and deferred tax including prior year adjustments amounted to DKK 773 million (2016: DKK 875 million), equivalent to an effective tax rate of 23.4% (2016: 25.1%).

8 Distribution of profit

	PARENT COMPANY	
DKKm	**2017**	**2016**
Proposed dividend	1,000	1,000
Transferred to equity reserves	1,532	1,613
Total distribution of profit	**2,532**	**2,613**

NOTES

9 Intangible fixed assets

GROUP

DKKm	Completed development projects	Acquired patents licences, trademarks, etc.	Goodwill	Development projects in course of construction *)	Total
Cost at 1 January 2017	515	253	1,777	113	2,658
Exchange rate and other adjustments	-6	-1	-22		-29
Additions during the year		58	46	33	137
Disposals during the year	0	-48	-166		-214
Transferred		13		-8	4
Cost at 31 December 2017	510	275	1,635	137	2,557
Amortisation and impairment losses at 1 January 2017	515	231	1,588		2,334
Exchange rate and other adjustments	-6	-1	-14		-20
Amortisation for the year		21	28		49
Disposals during the year		-43	-166		-208
Amortisation and impairment losses at 31 December 2017	510	208	1,437		2,154
Carrying amount at 31 December 2017	**0**	**67**	**199**	**137**	**403**

PARENT COMPANY

DKKm	Acquired patents licences, trademarks, etc.
Cost at 1 January 2017	288
Disposals during the year	-26
Cost at 31 December 2017	262
Amortisation and impairment losses at 1 January 2017	283
Amortisation for the year	3
Disposals during the year	-26
Amortisation and impairment losses at 31 December 2017	260
Carrying amount at 31 December 2017	**2**

*) Development projects in course of construction include prepayments for intangible assets.

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10 Tangible fixed assets

GROUP

DKKm	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Tangible fixed assets in course of construction **)	Total
Cost at 1 January 2017	4,534	5,477	806	166	10,983
Exchange rate and other adjustments	14	14	-12	0	16
Additions during the year	206	206	94	457	963
Disposals during the year	-38	-208	-85	0	-332
Transferred	44	163	19	-230	-4
Cost at 31 December 2017	4,759	5,653	822	393	11,626
Depreciation and impairment losses at 1 January 2017	2,412	4,340	658		7,410
Exchange rate and other adjustments	-7	5	-10		-13
Depreciation for the year	145	221	87		453
Depreciation and impairment losses on disposals	-29	-197	-82		-308
Transferred		-1	1		0
Depreciation and impairment losses at 31 December 2017	2,520	4,368	653		7,541
Carrying amount at 31 December 2017	**2,239**	**1,284**	**168**	**393**	**4,085**

PARENT COMPANY

DKKm	Land and buildings	Other fixtures and fittings, tools and equipment	Tangible fixed assets in course of construction **)	Total
Cost at 1 January 2017	1,067	23	14	1,104
Additions during the year			11	11
Transferred	17	3	-20	0
Cost at 31 December 2017	1,083	26	5	1,114
Depreciation and impairment losses at 1 January 2017	729	18	0	746
Depreciation for the year	23	2		25
Depreciation and impairment losses at 31 December 2017	751	19	0	771
Carrying amount at 31 December 2017	**332**	**7**	**5**	**344**

**) Tangible fixed assets in course of construction include prepayments for tangible assets.

NOTES

11 Investments

GROUP

DKKm	Investments in associates	Receivables from associates	Other investments	Other long-term receivables	Total
Cost at 1 January 2017	190	5	970	63	1,228
Exchange rate and other adjustments	0		0	-1	-1
Additions during the year	116		360	22	498
Disposals during the year	-73	-3	-166	-2	-244
Cost at 31 December 2017	232	2	1,165	83	1,481
Value adjustments at 1 January 2017	-57		-36		-93
Net profit for the year and value adjustments	25		5		30
Dividends for the year	-12				-12
Disposals during the year	-73		-9		-64
Value adjustments at 31 December 2017	29		-40		-11
Carrying amount at 31 December 2017	**261**	**2**	**1,125**	**83**	**1,470**

PARENT COMPANY

DKKm	Investments in subsidiaries	Investments in associates	Receivables from associates	Other investments ***)	Other long-term receivables
Cost at 1 January 2017	4,279	173	2	767	5
Additions during the year	264	100		335	8
Disposals during the year	-97	-73	-2	-127	
Cost at 31 December 2017	4,446	200	0	975	13
Value adjustments at 1 January 2017	-895	-58		-29	
Exchange rate and other adjustments	-127				
Net profit for the year and value adjustments	1,002	25		18	
Dividends for the year	-900	-12			
Disposals during the year	-81	-73		-15	
Value adjustments at 31 December 2017	-839	28		-26	
Carrying amount at 31 December 2017	**3,607**	**228**	**0**	**949**	**13**

***) The Company's Other investments primarily include investments in private equity funds, mezzanine funds, property funds and similar passive investments (collectively referred to as "investment funds"). For this type of investment, fair value cannot be measured on the basis of observations in an active market, but on the basis of information on the valuation of the funds themselves. At the conclusion of a new investment fund, VKR Holding receives information about the fund's overall principles for valuation and these are accepted if the Company chooses to invest in the investment fund. The fair value of its investments in investment funds is based on quarterly reports received. VKR Holding neither receives detailed information about fair value calculation for the investment funds, nor information about the key assumptions used in the fair valuation. The fair value of all investment funds is calculated on the basis of unobservable inputs.

For specification of investments in subsidiaries and associates, refer to the company overview in the end of the annual report.

NOTES

12 Contract work in progress

DKKm	GROUP 2017	GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
Sales value of construction contracts	63	350		
Invoicing on account	-29	-314		
	34	**36**		
Recognised as follows:				
Contract work in progress (assets)	34	36		
Prepayments from customers (liabilities)	0	0		
	34	**36**		

13 Deferred tax assets

DKKm	GROUP 2017	GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
Deferred tax assets at 1 January	189	284	8	46
Exchange rate adjustments	-2	-2		
Deferred tax adjustments for the year recognised in the income statement	-31	-93	-8	-38
Tax on equity transactions	0	1		
Deferred tax assets at 31 December	**157**	**189**	**0**	**8**

At 31 December 2017, the Company has recognised tax assets of DKK 157 million. The tax assets represent tax loss carryforwards of DKK 6 million and unused tax credits from timing differences of DKK 151 million. Based on budgets until 2019, Management has considered that future taxable income will be available for utilisation of the tax assets.

14 Share capital

The share capital at 31 December 2017 comprises:
10,000 A shares of DKK 1,000 each
99,869 B shares of DKK 1,000 each
The share capital has not been changed during the last five years.
Each A share carries 10 voting rights, and each B share carries 1 voting right.

NOTES

15 Deferred tax liabilities

DKKm	GROUP 2017	GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
Deferred tax liabilities at 1 January	88	77		
Exchange rate adjustments	0	-1		
Deferred tax adjustment for the year recognised in the income statement	-11	12	9	
Tax on equity transactions	0	0		
Deferred tax liabilities at 31 December	**77**	**88**	**9**	

16 Other provisions

DKKm	GROUP	PARENT COMPANY
The provisions mainly relate to warranty provisions. Other provisions are expected to fall due as follows:		
0-1 year	127	
> 1 year	244	
Other provisions at 31 December 2017	**371**	

17 Non-current liabilities

GROUP

DKKm	Total non-current liabilities 31/12 2017	Current portion of non-current liabilities (0-1 year)	Long-term portion of non-current liabilities (more than 1 year)	Non-current liabilities falling due more than five years after the balance sheet date
Non-current liabilities are recognised as follows:				
Leases	17	3	1	13
Other non-current liabilities	34	1	16	16
Total liabilities at 31 December 2017	**51**	**4**	**18**	**29**

18 Contingent liabilities and other contractual obligations

DKKm	GROUP 2017	GROUP 2016	PARENT COMPANY 2017	PARENT COMPANY 2016
Lease obligations (operating leases) falling due within five years, total	197	175	2	2
Commitment relating to investment in equity funds	1,412	1,225	1,380	1,189
Rental obligations	307	363	63	70
Guarantees	140	190		
Other contractual obligations	303	312		

The parent company is jointly taxed with other Danish companies in the VKR Group. The Company has unlimited joint and several liability with the other jointly Danish taxed companies for company taxes, interest thereon etc. and for Danish tax withheld at source for dividend, interest and royalties within the joint taxation group.

NOTES

19 Events after the balance sheet date

No events have occurred since the balance sheet date that will have a material impact on the profit for the year or the Company's financial position.

20 Related parties

Transactions between VKR Holding A/S and its related parties are settled on an arm's length basis. Pursuant to section 98c of the Danish Financial Statements Act, the Company has chosen to disclose transactions not conducted on an arm's length basis. The Company has not had any of this type of transactions during the year.

21 Currency risks and use of derivative financial instruments

The parent company uses hedging instruments such as forward currency contracts and currency swaps to hedge recognised and unrecognised transactions.

The parent company is included as a counterparty in forward currency contracts with individual subsidiaries regarding the hedging of those companies' foreign exchange risks. Hedging of recognised transactions mainly comprises receivables and liabilities. Furthermore, hedging is done regarding foreign exchange risks by purchases and sales within the next year.

Moreover, foreign exchange risks are hedged externally on an ad hoc basis for individual financial investments.

COMPANY OVERVIEW AT 31 DECEMBER 2017

● Subsidiary ○ Associated company or joint venture

Argentina

● VELUX Argentina S.A.

Australia

● VELUX Australia Pty. Ltd.

Austria

● Arcon-Sunmark GmbH

● SWV Solar Wärme Versorgungs GmbH – 90%

● VELUX Österreich GmbH

Belarus

● FE "VELUX Roof Windows"

Belgium

● VELUX Belgium S.A.

Bosnien-Herzegovina

● VELUX Bosna i Hercegovina d.o.o.

Bulgaria

● VELUX Bulgaria EOOD

Canada

● VELUX Canada Inc.

Chile

● VELUX Chile Limitada

China

○ Arcon-Sunmark Large-Scale Solar Systems Integration Co., Ltd. – 45%

● Dovista (Guangzhou) Windows and Doors Technology Co. Ltd.

● VELUX (CHINA) CO., Ltd.

Croatia

● VELUX Hrvatska d.o.o.

Czech Republic

● BKR ČR, s.r.o.

● VELUX Česká republika, s.r.o.

● Subsidiary ○ Associated company or joint venture

Denmark

● A/S Østbirk Bygningsindustri

● Arcon-Sunmark A/S

● B18-1 A/S

○ BetterHome ApS – 25%

● BT Components A/S

○ Core Bolig IV Investoraktieselskab Nr. 1 - 38%

○ Core Bolig VIII Investoraktieselskab Nr. 1 - 22%

● DOVISTA A/S

○ Greystone Special Situations Fund K/S - 33%

● Gåsdal Bygningsindustri A/S

● Homecontrol A/S

○ Krone Holding ApS – 39%

● Kuhr Invest ApS

● O.H. Industri A/S

● Partas A/S

● Rationel Vinduer A/S

● Skærbæk Bygningsindustri A/S

● SolarCAP A/S

○ SolarSouth Investment Komplementar ApS – 35%

○ SolarSouth Investment P/S – 35%

● Thyregod Bygningsindustri A/S

● VELFAC A/S

● Velserv A/S

● Velterm A/S

● VELUX A/S

● VELUX Danmark A/S

● Ventilation Holding ApS

● VKR Invest ApS

Information in the company overview is provided pursuant to section 97a, (3) of the Danish Financial Statements Act.
The companies are 100% owned by VKR Holding A/S unless otherwise stated after the company name

COMPANY OVERVIEW AT 31 DECEMBER 2017

● Subsidiary ○ Associated company or joint venture

Estonia

● VELUX Eesti OÜ

Finland

○ Kurikka Timber OY – 50%

● VELUX Suomi Oy

France

● KH-SK France S.A.S.

● RoofLITE France S.A.R.L

● Velsol France S.A.S.

● VELUX France S.A.S.

● VKR France S.A.S.

Germany

● Arcon-Sunmark GmbH

● DEUTSCHE-CAP GmbH

● JTJ Sonneborn Industrie GmbH

○ Plattform Dach.de GbR – 20%

● VELFAC GmbH

● VELUX Deutschland GmbH

Greece

● FOCO Solar Energy S.A. (in liquidation)

Hungary

● Altaterra Kft.

● VELUX Magyarország LKR Korlátolt Felelösségü Társaság

Ireland

● Rationel Vinduer Ltd.

● VELFAC Ireland Ltd.

Italy

● VELUX Italia s.p.a.

Japan

● VELUX-Japan Ltd.

Latvia

● VELUX Latvia SIA

● Subsidiary ○ Associated company or joint venture

Lithuania

● UAB "DOVISTA"

● "VELUX Lietuva", UAB

The Netherlands

● VELUX Nederland B.V.

New Zealand

● VELUX New Zealand Ltd.

Norway

● DOVISTA Norge AS

● Lian Trevarefabrikk AS

● Natre Vinduer AS

● VELUX Norge AS

● Vindusmesteren AS

Poland

● Altaterra Polska Sp. z o.o.

● DOVISTA Polska Sp. z o.o.

● NB Polska Sp. z o.o.

● VELUX Polska Sp. z o.o.

Portugal

● VELUX Portugal, Lda.

Romania

● S.C. VELUX România S.R.L.

Russia

● ZAO MD-RUS

● ZAO VELUX

Serbia

● VELUX Srbija d.o.o.

Slovakia

● Partizánske Building Components-SK s.r.o.

● VELUX Slovensko spol. s r.o.

Slovenia

● VELUX Slovenija d.o.o.

Spain

● VELUX Spain, S.A.

COMPANY OVERVIEW AT 31 DECEMBER 2017

● Subsidiary ○ Associated company or joint venture

Sweden

- ● DOVISTA Sverige AB
- ● Mockfjärds Fönster AB
- ● Mockfjärds Fönsterentreprenad AB
- ● Mockfjärds Fönstermästaren AB
- ● Snidex AB
- ● Svenska Fönster AB
- ● VELFAC AB
- ● VELUX Svenska AB

Switzerland

- ● VELUX Schweiz AG

Turkey

- ● VELUX Çati Pencereleri Ticaret Limited Sirketi

Ukraine

- ● VELUX Ukraina TOV

United Kingdom

- ● EVL Cessation Ltd.
- ● Rationel Windows (UK) Ltd.
- ● The New West Port Corporation Limited
- ● VELFAC Ltd.
- ● VELUX Company Ltd.
- ● V.U.K. HOLDINGS LIMITED

● Subsidiary ○ Associated company or joint venture

USA

- ● TVC Holdings LLC
- ● VELUX America LLC
- ● VELUX Design and Development USA LLC
- ● VELUX Greenwood LLC
- ● VELUX Group USA Inc.
- ● VELUX Sky Forwarding LLC
- ● VELUX Solutions LLC

Vietnam

- ● Arcon-Sunmark Production Co. Ltd.

Péter Galavics, employee at the Hungarian VELUX factory (LKR).
Photo: Christian Geisnæs, 2017

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