

System Frugt A/S

Blomstervej 8

8381 Tilst

Central Business Registration

No 13473498

Annual report 2019

The Annual General Meeting adopted the annual report on 21.04.2020

Chairman of the General Meeting

Name: Flemming Ib Windfeld

Contents

	<u>Page</u>
Entity details	2
Statement by Management	3
Independent auditor's report	4
Management commentary	7
Income statement for 2019	15
Other comprehensive income	15
Cash flow statement for 2019	16
Balance sheet at 31.12.2019	17
Statement of shareholders' equity	19
Notes to financial statements	20
Accounting policies	40

Entity details

Entity

System Frugt A/S
Blomstervej 8
DK-8381 Tilst

Central Business Registration No (CVR): 13473498

Founded: 18.12.1989

Registered in: Aarhus, Denmark

Financial year: 01.01.2019 - 31.12.2019

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Board of Directors

Michael Zøhner-Pedersen, Chairman

Tino Bendix

Jacob Østergaard Bergenholtz

Esben Bay Jørgensen

Jørgen Peter Danielsen

Executive Board

Flemming Ib Windfeld, CEO

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

City Tower, Værkmestergade 2

DK-8000 Aarhus C

Statement by Management

The Board of Directors and the Executive Board have today considered and approved the annual report of System Frugt A/S for the financial year 1 January 2019 - 31 December 2019.

The annual report is prepared in accordance with International Financial Reporting Standards as adopted by the EU and disclosure requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31 December 2019 and of the results of their operations and cash flows for the financial year 1 January 2019 - 31 December 2019.

In our opinion, the management commentary contains a fair review of the development of the Entity's business and financial matters, the results for the year and the financial position.

We recommend the annual report for adoption at the Annual General Meeting.

Aarhus, 07.04.2020

Executive Board

Flemming Ib Windfeld
CEO

Board of Directors

Michael Zøhner-Pedersen
Chairman

Tino Bendix

Jacob Østergaard Bergenholtz

Esben Bay Jørgensen

Jørgen Peter Danielsen

Independent auditor's report

To the shareholders of System Frugt A/S

Opinion

We have audited the financial statements of System Frugt A/S for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31-12-2019 and of the results of its operations and cash flows for the financial year 01.01.2019 - 31.12.2019 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and 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 financial statements* section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board of Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Statement on the management commentary

Management is responsible for the management commentary.

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

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

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

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of 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 Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the 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 these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement 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 Entity'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 Entity'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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Aarhus, 07.04.2020

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Jacob Nørmark
State-Authorised
Public Accountant
MNE no mne30176

Chris Middelhede
State-Authorised
Public Accountant
MNE no mne45823

Management commentary

	(Proforma) 2019	2019	2018	2017/18	2016/17
	DKK '000	DKK '000	DKK '000	DKK '000	DKK '000
Key figures					
Revenue	385,005	438,007	170,795	488,281	486,595
Gross profit/loss	57,316	57,175	21,203	57,465	65,436
Operating profit/loss	6,664	784	5,923	(5,624)	(9,402)
Net financials	(4,207)	(4,265)	(3,881)	(10,416)	(11,259)
Profit/loss for the year	3,452	(2,486)	2,194	(35,725)	(32,709)
Total assets	278,089	287,143	279,406	311,285	310,854
Investments in property, plant and equipment	7,004	7,004	1,534	15,747	5,307
Equity	133,523	133,523	137,827	102,218	49,858
Cash flows, operating activities	17,734	11,796	(5,383)	25,401	3,597
Cash flows, investing activities	(7,803)	(7,803)	(1,269)	(10,477)	(9,835)
Cash flows, financing activities	(7,100)	(4,900)	8,748	(18,535)	5,238
Average number of employees	103	118	131	131	137
Ratios					
Gross margin (%)	14.89	13.05	12.41	11.77	13.45
Net margin (%)	0.90	(0.57)	1.28	(7.32)	(7.00)
Return on equity (%)	2.54	(1.83)	1.83	(46.98)	(51.96)
Equity ratio (%)	48.01	46.50	49.33	32.84	16.04
Revenue per employee DKK'000	3,738	3,712	1,304	3,727	3,552

Proforma 2019 key figures are excluding discontinuing operations.

Key figures for 2019 and 2018 are including discontinuing operations.

Key figures for 2018 are not directly comparable with previous years, as these include the period 01.10.2018 to 31.12.2018.

Key figures are only disclosed for the years 2016/17 and forward as a result of the merger between System Frugt A/S and System Frugt Holding A/S with System Frugt A/S in 2017/18 as the continuing company. At the end of 2017/18 Management decided to present financial statements according to IFRS (International Financial Reporting Standards).

Financial highlights are defined and calculated in accordance with current "Recommendations & Ratios" issued by the Danish Society of Financial Analysts.

Ratios	Calculation formulas	Ratios
Gross margin (%)	$\frac{\text{Gross profit/loss} \times 100}{\text{Revenue}}$	The entity's operating gearing
Net margin (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Revenue}}$	The entity's operating profitability
Return on equity (%)	$\frac{\text{Profit/loss for the year} \times 100}{\text{Average equity}}$	The entity's return on capital invested in the entity by the owners.
Equity ratio (%)	$\frac{\text{Equity} \times 100}{\text{Total assets}}$	The financial strength of the entity.
Revenue per employee	$\frac{\text{Revenue}}{\text{Average number of employees}}$	The entity's productivity

Management commentary

Primary activities

System Frugt A/S is the parent company in the System Frugt Group. The primary activities comprise:

- Develop, source, pack and supply the Nordic and Dutch market with naturally healthy consumer products based on dried fruits, nuts, seeds, pulses, natural snacks and fresh specialties.
- As of beginning of January 2020 the fresh specialties have been divested from System Frugt
- Our products are marketed under the brand "Earth Control" and our customers own labels.

The consolidated financial statement of System Frugt A/S consist of the following companies (the Group):

- System Frugt A/S, Denmark
- System Frugt AB, Sweden
- System Frugt Oy AB, Finland
- System Frugt Norge AS, Norway (under establishment)

Development in activities and finances

In 2019 the financial performance in System Frugt A/S recovered strongly and the company improved "profit/loss for the year" by DKK 33,239k compared to financial year 2017/18. In line with strategic decisions made in previous years the focus has continued to be on increasing and strengthening the position of Earth Control across the Nordic markets. The brand gets a still stronger foothold in all markets and plays an important role in assisting and guiding the consumer into making green and healthy decisions.

Fresh Fruit has performed on a stable level during 2019. To further focus System Frugt A/S on dry goods, the Fresh Fruit business was divested at the end of 2019. It is therefore treated as discontinued operations in the financial statement.

The financial period covers a full calendar year whereas the comparative figures only cover 3 months, which however constitute the high season. Total revenue for continuing operations for the period ended at DKK 385,005k (2018: DKK 158,032k).

Gross margin for continuing operations is realized at 14.9% (2018: 12.7%). The increasing contribution margin reflect the initiatives implemented during the year with strong focus on developing the Earth Control brand, streamlining the product portfolio and increasing productivity.

Administration and distribution cost for continuing operations is realized at DKK 50,652k reflecting the new structure of the business after rightsizing. The average number of employees is 118 compared to 131 last year.

Operating profit for the year for continuing operations is realized at DKK 6,664k (2018: DKK 6,170k). Compared to previous years this is a significant improvement reflecting the strategic decisions of System Frugt.

Profit after tax for the year for continuing operations amounts to DKK 3,452k (2018: DKK 2,441k). Net result from discontinued operations amount to DKK (5,938k) (2018: DKK (247)k), resulting in a total profit for the year of DKK (2,486)k (2018: DKK 2.194k)

Management commentary

The financial performance for the year is considered acceptable.

Change of financial year

In 2018, the Company's Management decided to change financial year to 01.01.-31.12. from previously 01.10.-30.09. Consequently, the comparative figures are not directly comparable (presented for the three-month period 01.10.2018-31.12.2018).

Investments

In the financial year, investments excluding IFRS 16 amounted to DKK 10,940k (2018: DKK 1.534k). The main investment is in IT-infrastructure, production equipment and software.

Financial resources

The solvency ratio is 46.50% (2018: 49.33%), equivalent to equity at 31 December 2019 of DKK 133,523k (31 December 2018: DKK 137,827k).

Outlook

In financial year 2020, System Frugt A/S is off to a good start. The company expect to deliver a financial performance in line or better than 2019.

Revenue is expected to stabilize on a slightly lower level than the past 12 months, mainly due the discontinuation of Fresh Fruit. Gross margins are expected to improve compared to last year leaving a better profitability. After discontinuing operations in the past year, fixed costs are expected to stabilize on the level of the continuing operations. As a whole financial performance is expected to improve reflecting the new structure and focusing of the business.

The outbreak and spreading of COVID-19 in the beginning of 2020 has still not directly impacted the activity level of System Frugt. It does however cause some uncertainties in regards the off take by customers, deliveries from suppliers and especially the whole supply chain infrastructure in Europe. The management has not changed the expectations indicated above, as it will be more or less impossible to quantify impact on sales or profitability.

Reference is made to the part of the management commentary relating to Subsequent events.

Particular risks

Price risks:

The Group's most significant operating risk relates to the development in raw material prices and the possibility of passing on increases to sales prices. The Company has well-developed policies and procedures to reduce these price risks.

Management commentary

Exchange rate risks:

A considerable part of the Company's purchase is made in USD, which results in a risk of exchange rate fluctuations and a derived impact on financial performance, equity and cash flows. It is the Company's policy to hedge these commercial foreign exchange risks mainly by using forward exchange contracts or options.

Intellectual capital resources

System Frugt A/S is BRC-certified and has implemented a well-functioning quality control system, which is developed on a regular basis. Moreover, the Company has built considerable knowledge about the individual products and their sourcing.

Environmental performance

The Company does not run any business resulting in dangerous or special impacts on the external environment. It is environmentally conscious and seeks to reduce the environmental impacts from operations.

Research and development activities

System Frugt A/S constantly focus on improving the quality of products and efficiency of marketing and production facilities. This will be within the current product portfolio. New launches will be in the form of line extensions.

Corporate social responsibility

In our daily operations, we focus on acting responsibly towards our surrounding society and the environment. This section contains our disclosure on Corporate Social Responsibility according to the Danish Financial Statements Act §99a and §99b during the financial year 2019.

Gender diversity in management bodies

In accordance with §99b, System Frugt A/S has drawn up a policy for gender diversity in the management bodies of the Company with the aim to ensure more female representatives on both the Board of Directors and at other management levels of the organization.

The ambition of the Company is still to have one of the seats on the Board of Directors held by women. This will lead to a share of female board members of 20%. Currently there is no female member of the Board. There was an election for the Board in the financial year, where a male candidate with the required competences was selected and elected as member of the Board. Within the coming 4 years the aim is to have at least one female Board member. Recruiting of Board members is based on skills before gender, but the aim is still to have female members in the future.

The top management of the Company consists of three members, all male. This is a reduction from former five members in the top management, which reflect the resizing process of the company. The Extended Management Team consist of 22 members including the top management. Currently, there are 9 female members of the Extended Management Team – corresponding to 41%. The Company has implemented a policy for ensuring more women in management positions at System Frugt A/S, however progress is

Management commentary

dependent on changes and replacements taking place in top management. In the financial year 2019, there has not been any changes in the gender composition of the top management, so the initiated activities for diversity in the top management have not yet been successful. The process of recruiting female members in top management positions has already been initiated through internal as well as external recruitment, where relevant candidates of each gender are considered for management positions.

Corporate social responsibility

We are a member of the **UN Global Compact** that sets a structured, high standard for worldwide CSR. To promote the UN Global Compact, we have joined the **BSCI Code of Conduct** – a practical set of principles and values referring to the UN Global Compact conventions to improve working conditions in the supply chain. By joining BSCI, we have committed ourselves to promote the **11 principles of the Code of Conduct** in our supply chain.

1. The Rights of Freedom of Association and Collective Bargaining.
2. No Discrimination
3. Fair Remuneration
4. Decent Working Hours
5. Occupational Health and Safety
6. No Child Labor
7. Special Protection for Young Workers
8. No Precarious Employment
9. No Bonded Labor
10. Protection of the Environment
11. Ethical Business

We constantly guide and encourage our suppliers to improve themselves in order to become more responsible. For instance, we always ask suppliers to sign the BSCI Code of Conduct when we enter into a partnership with them. We dedicate resources in our Quality and Sourcing departments to visit our suppliers on a scheduled regular basis in order to monitor and test the quality of our products.

The efforts done, and targets achieved are described in the Communication on Progress report, which can be found here:

<https://systemfrugt.dk/media/1899/communication-on-progress-cop-2019-results-final.pdf>

People

We employ people directly and indirectly in every link of our supply chain all over the world. To ensure human rights are respected, we encourage and guide our suppliers to look after their employees in accordance with the Global Compact and BSCI principles.

Management commentary

Internally in System Frugt

At System Frugt in Denmark, we are proud of our highly dedicated employees, who come from a large variety of different backgrounds. We constantly work to improve the work environment in all of our departments. Among other things, we receive staff feedback every day to ensure a positive environment with focus on safety and well-being. We also have a dedicated internal "Safety Team" working proactively to prevent work accidents. In addition, we have a long-term partnership with the social enterprise [Borup Pakkeri](#) for special packaging tasks, and we take responsibility in integrating refugees into Danish society by offering internships and education.

During 2019 initiatives were made to involve all employees more in the strategic direction of the company. The first thing was to make everyone aware of the final destination of our products. This was done by installing information screens in the cantina – where other information is shared.

System Frugt is not aware of any breaches of human rights in System Frugt in 2019. We believe that our continuous focus on working conditions have contributed to a sustainable high level in this field.

Supply chain and external relations

By sourcing our products locally at small farms, we bring an economic incentive to the local farming enterprises in many developing countries. Local farmers growing their business allow for economic and technical development, while improving living and working conditions for employees and suppliers as well.

During 2019 System Frugt has continued to guide additional suppliers to join the BSCI principles, which is in line with our policy on responsible sourcing. System Frugt has also strengthened the cooperation with Borup Pakkeri and is now using them as a more integrated part of the packing department, when special tasks occur.

People play a central role in System Frugt and in the future the work with BSCI at suppliers will continue as will the work with diversity on employment and social responsibility towards employees and partners.

Environment and climate

Nature is our most important supplier, and we should leave it in a better state than we found it. We recognize that there may be a risk of impacting the environment and climate in a negative way through our ecological footprint. But among other things, we work with environmentally friendly initiatives such as changing to energy-saving lighting and compressors, only using RSPO-certified palm oil, reducing transport of products as well as reducing packaging material.

We also encourage consumers to ENJOY NATURALLY by promoting a greener lifestyle with natural foods such as nuts, dried fruits and greens as their main source of nutrition. Green and vegetable-based food is more environmentally friendly as it creates far less CO2 emissions than other food sources such as meat or processed foods.

Management commentary

One of our initiatives within this area is a business sponsorship agreement with the World Wildlife Fund, WWF. The reason for this initiative is that our products are primarily sourced from raw materials found in nature across the world – raw materials that need nature's scarce resources to be maintained. Hereby, we too want to contribute to WWF's nature conservation programs to help ensure long-term sustainability. During the fiscal year of 2019, an amount of DKK 200.000 has been donated and sponsored to WWF from our Earth Control® product campaigns, which were launched in Finland and Norway.

From 1 January 2015, we ceased using palm oil direct in our products, converting to the use of the less environmentally harmful sunflower oil. Other products continuing to rely on palm oil have switched to 100% RSPO-certified palm oil.

During 2019 the plant has operated on certified green electricity and we continue to develop means to reduce consumption.

Together with our suppliers and customers we have developed a sustainable foil which is partly based on raw materials from sugar cane.

During 2020 we will do a rolling change of all remaining packaging materials into single type foils, which are 100% recyclable.

Ethical Business

Sourcing globally entails dealing with ethical business issues. It is challenging to ensure that all our conditions relating to labor rights, human rights, environment and anti-corruption are met by our suppliers, but we are definitely on the right track thanks to our work with the BSCI Code of Conduct. When operating a global business, there can be a risk that employees or business partners become exposed to or involved in corruption. To mitigate this risk System Frugt operates a zero-tolerance policy for fraud and adulteration.

Internally, System Frugt has strict rules on the maximum value of gifts an employee can receive and give. The level for gifts are specified in the employee handbook. Any gift which may exceed the maximum amount will be used in the annual employee bingo game.

Externally, we perform risk assessments of suppliers and external relations. The assessment includes all raw material groups and include assessment of the following areas: Simplicity/complexity of adulteration/substitution, detection, historical evidence, origin of raw material and corruption risk, control systems for detection of fraud, internal control of raw material and internal personnel ideologically motivated fraud.

We are not aware of any breaches in System Frugt in 2019 concerning corruption and bribery.

If you want to know more about our sustainability efforts, please see the link above.

Management commentary

Events after the balance sheet date

The break-out and spreading of COVID-19 in the beginning of 2020 has so far not had negative impact on the turnover or result of System Frugt. It has however created uncertainties about the future activity level. This relate to cancelled orders, missing supplies, lock-down of production i.e.

It is the judgement of the management, that the current situation will not have severe impact on the long run, and that System Frugt will manage through the difficult and challenging period.

Besides the above, nothing has happened after the balance sheet date, that could impact the content of the financial statement.

Income statement for 2019

		2019	2018
	Notes	DKK'000	DKK'000
Continuing operations			
Revenue	2	385,005	158,032
Production costs	3,6	(327,689)	(137,937)
Gross profit/loss		57,316	20,095
Distribution costs	3,6	(40,282)	(9,712)
Administrative expenses	3,5,6	(10,370)	(4,213)
Operating profit/loss		6,664	6,170
Income from investments in group enterprises		995	152
Other financial income	7	3	12
Other financial expenses	8	(4,210)	(3,893)
Profit/loss before tax		3,452	2,441
Tax on profit/loss for the year	9	0	0
Profit/loss from continuing operations		3,452	2,441
Profit/loss from discontinued operations	4	(5,938)	(247)
Profit/loss for the year	10	(2,486)	2,194
Attributable to:			
Shareholders of System Frugt A/S		(2,486)	2,194
		(2,486)	2,194
Other comprehensive income			
Profit for the year		(2,486)	2,194
Other comprehensive income			
Items that can be reclassified to the income statement when certain conditions are met:			
Exchange differences on translating foreign operations		(43)	9
Fair value adjustments of financial instruments entered into			
Hedge future cash flows		(1,750)	(909)
Tax relating to financial instruments	17	385	200
Total comprehensive income		(3,894)	1,494
Attributable to:			
Shareholders of System Frugt A/S		(1,408)	(700)
		(3,894)	1,494

Cash flow statement for 2019

	<u>Notes</u>	<u>2019</u> <u>DKK'000</u>	<u>2018</u> <u>DKK'000</u>
Operating profit/loss		6,664	6,170
Profit from discontinued operations		(5,938)	(247)
Amortisation, depreciation and impairment losses		22,025	2,522
Increase/decrease in receivables		6,151	(3,355)
Increase/decrease in trade payables etc.		(269)	(40,181)
Increase/decrease in inventories		<u>(12,630)</u>	<u>33,772</u>
Cash flows from ordinary operating activities		16,003	(1,319)
Financial income received		3	12
Financial expenses paid		(4,210)	(3,893)
Income taxes refunded/(paid) including withholding tax		<u>0</u>	<u>(183)</u>
Cash flows from operating activities		<u>11,796</u>	<u>(5,383)</u>
Acquisition etc of intangible assets		(3,936)	0
Acquisition etc of property, plant and equipment		<u>(3,867)</u>	<u>(1,269)</u>
Cash flows from investing activities		<u>(7,803)</u>	<u>(1,269)</u>
Loans raised		10,502	5,000
Changes in bankdebt		(5,150)	(19,743)
Cash increase of capital		0	23,790
Repayment of lease debt		(8,052)	(299)
Repayment of lease debt, discontinued operations		<u>(2,200)</u>	<u>0</u>
Cash flows from financing activities	20	<u>(4,900)</u>	<u>8,748</u>
Increase/decrease in cash and cash equivalents		<u>(907)</u>	<u>2,096</u>
Cash and cash equivalents beginning of year		<u>2,109</u>	<u>13</u>
Cash and cash equivalents end of year		<u>1,202</u>	<u>2,109</u>

Balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019 DKK'000</u>	<u>2018 DKK'000</u>
Goodwill	14	147,648	147,648
Other intangible assets		<u>7,869</u>	<u>1,575</u>
Intangible assets	11	<u>155,517</u>	<u>149,223</u>
Land and buildings		13,090	0
Plant and machinery		14,638	22,251
Other fixtures and fittings, tools and equipment		3,323	5,993
Leasehold improvements		<u>1,730</u>	<u>2,206</u>
Property, plant and equipment	12	<u>32,781</u>	<u>30,450</u>
Investments in group enterprises		<u>3,591</u>	<u>3,056</u>
Fixed asset investments	13	<u>3,591</u>	<u>3,056</u>
Non-current assets		<u>191,889</u>	<u>182,729</u>
Manufactured goods and goods for resale		<u>47,647</u>	<u>56,119</u>
Inventories		<u>47,647</u>	<u>56,119</u>
Deferred tax	15	8,250	7,867
Trade receivables	16	11,152	2,838
Receivables from group enterprises		9,239	7,202
Other receivables		8,273	19,635
Prepayments	17	<u>437</u>	<u>907</u>
Receivables		<u>37,351</u>	<u>38,449</u>
Cash		<u>1,202</u>	<u>2,109</u>
Assets classified as held for sale		<u>9,054</u>	<u>0</u>
Current assets		<u>65,254</u>	<u>96,677</u>
Assets		<u>287,143</u>	<u>279,406</u>

Balance sheet at 31.12.2019

	<u>Notes</u>	<u>2019 DKK'000</u>	<u>2018 DKK'000</u>
Contributed capital	18	510	510
Retained earnings		133,013	137,317
Equity		<u>133,523</u>	<u>137,827</u>
Subordinate loan capital	19	0	6,000
Finance lease liabilities	20	10,440	4,339
Non-current liabilities		<u>10,440</u>	<u>10,339</u>
Current portion of long-term liabilities other than provisions	20	24,793	1,125
Bank loans		20,043	25,193
Trade payables		62,442	75,940
Payables to group enterprises		12,049	1,026
Other payables		17,514	27,956
Current liabilities		<u>136,841</u>	<u>131,240</u>
Liabilities associated with assets classified as held for sale		<u>6,339</u>	<u>0</u>
Liabilities		<u>153,620</u>	<u>141,579</u>
Equity and liabilities		<u>287,143</u>	<u>279,406</u>
Financial instruments	21		
Mortgages and securities	22		
Contingent liabilities	23		
Related parties and group relations	24		
Financial risks and financial instruments	25		
Events after the reporting period	26		

Statement of shareholders' equity

DKK'000	Share capital	Share premium	Reserve equity method	Retained earnings	Total
2019					
Shareholders' equity at beginning of year	510	0	0	137,317	137,827
Profit for the year	0	0	0	(2,486)	(2,486)
Other comprehensive income	0	0	0	(1,408)	(1,408)
Total comprehensive income	0	0	0	(3,894)	(3,894)
Other adjustments	0	0	0	(410)	(410)
Shareholders' equity at end of year	510	0	0	133,013	133,523
2018					
Shareholders' equity at beginning of year	501	0	0	101,717	102,218
Profit for the year	0	0	0	2,194	2,194
Other comprehensive income	0	0	0	(700)	(700)
Total comprehensive income	0	0	0	1,494	1,494
Capital increases	9	34,106	0	0	34,115
Transferred from share premium	0	(34,106)	0	34,106	0
Shareholders' equity at end of year	510	0	0	137,317	137,827

Number of shares is 510,000 of the nominal value of DKK 510,000.

Notes to financial statements

1. Effect of IFRS and critical accounting judgements and key sources of estimation uncertainty

1.1 Application of new and revised International Financial Reporting Standards (IFRSs)

Impact from new IFRS standards

System Frugt A/S has implemented all new or amended accounting standards and interpretations as adopted by the EU and applicable for the 2019 financial year, including IFRS 16 "Leases", which is described below.

IFRS 16 Leases replaced IAS 17 Leases, IFRIC 4 Determining Whether an Arrangement Contains a Lease and related rules with application from 1 January 2019. The new standard entails for lessees that all leases that meet the definition in the standard of a lease are to be recognized as an asset and liability in the balance sheet, with depreciation and interest expense recognized in profit or loss.

IFRS 16: Transition and exemption rules

System Frugt A/S has applied the modified retrospective approach. This means that the accumulated effect of IFRS 16 is recognized in retained earnings in the opening balance for 1 January 2019 without restating comparative figures. System Frugt A/S has measured the right-of-use (the asset) at the amount corresponding to the lease liability (before adjustment for advance payments), which entails that the accumulated effect in retained earnings in the opening balance does not arise.

System Frugt A/S has applied the exemption rule of "grandfathering" the former definition of leases existing at transition. This means that the Group has applied IFRS 16 on all leases signed before 1 January 2019 and that were identified as leases according to IAS 17 and IFRIC 4. System Frugt A/S has also applied the exemption rule of using the same discount rate for a portfolio of leases with similar characteristics.

System Frugt A/S has also applied the exemption rule of not including long-term leases whose remaining lease term is less than 12 months from the date of initial application.

Accounting effect of the implementation of IFRS 16 As of 1 January 2019, System frugt A/S has recognized additional lease liabilities of DKK 26.4 million and right-of-use assets of DKK 26.4 million.

Below is the difference between the disclosed operating lease obligation in accordance with IAS 17 in the Annual Report prior to the implementation of IFRS 16 (31 December 2018) and the lease liabilities recognized in the balance sheet as of 1. January 2019 (release date) shown.

	DKK'000
Operating lease obligations disclosed 31.12.2018	13,423
Extension options	15,156
Other, (discounting, contract that expire within 12 monts etc.)	<u>(2,142)</u>
Lease liabilities recognized 01.01.2019	<u>26,437</u>

Notes to financial statements

In 2019 the implementation of IFRS 16 has affected EBITDA positively with DKK 9.1 million and profit before tax negatively by DKK 0.0 million. Financial expenses are impacted by DKK 0.5 million. Solvency ratio is negatively affected with 3.1%-point.

Other new or revised IFRS

Other new or revised IFRSs in issue but not yet effective are not expected to have any material impact on future consolidated financial statements.

1.2 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Entity's accounting policies, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value of the cash flows. Where the present value of the expected cash flows will not exceed the carrying amount of goodwill, a material impairment loss may arise. The key assumptions used in the impairments tests of goodwill are disclosed in note 14. The carrying amount of goodwill is DKK 147,648k (2018: DKK 147,648k).

Notes to financial statements

2. Revenue and segments

The Entity's products cannot be broken down into product groups, etc. and therefore no operating segments have been identified. The revenue consists primarily of sale of goods.

Revenue by geographical area

The Entity's activities are primarily distributed by area: Denmark, Sweden, Norway, Finland, Netherlands and other countries.

The Entity's revenue from external customers in these geographical areas is specified below where revenue is distributed by the customer's registered office.

	2019 DKK'000	2018* DKK'000
Denmark	206,023	78,144
Sweden	78,707	34,055
Norway	29,249	11,717
Finland	30,743	14,054
Netherlands	32,289	16,446
Other countries	7,994	3,616
	385,005	158,032

3. Staff costs

Remuneration of the Board of Directors	375	0
Wages and salaries	50,984	14,053
Pension costs	7,547	2,628
Other social security costs	1,245	320
Other staff costs	1,397	485
Cost reimbursement received from public authorities	(1,471)	(397)
	60,077	17,089

Staff costs are distributed as follows:

Production costs	32,746	9,894
Distribution costs	22,002	5,406
Administrative expenses	5,329	1,789
	60,077	17,089

Average number of employees	118	131
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Staff costs regarding discontinued operations is included in the above.

* 2018 covers the period 1 October to 31 December 2018

Notes to financial statements

	Board of Directors and Executive personnel DKK'000
3. Staff costs, continuing	
2019	
Salary	3,058
Cost at end of year	3,058
2018*	
Salary	523
Cost at end of year	523

There are no warrant programmes for the Board of Directors, the Executive Board, other key management personnel or other employees.

The Entity has only entered into defined contribution plans. In defined contribution plans, the employer pays a continuous contribution to an independent pension company, pension fund etc. but has no risk as to the future development of interest rates, inflation, mortality, disability etc. in respect of the amount due to the employee in due time.

	2019 DKK'000	2018* DKK'000
4. Discontinued operations		
The discontinued operations have affected the income statement as follows:		
Operating profit/loss for the period	(5,938)	(247)
Operating profit/loss for the period	(5,938)	(247)

The company's discontinuing activities in 2019 consist of divestment of Fresh Fruit. This is divested in connection with the management's future focus on the company's core competencies. Management considers the discontinued operation to be a separate business area and the area is therefore treated in accordance with the rules for discontinued operations.

* 2018 covers the period 1 October to 31 December 2018

Notes to financial statements

	2019 DKK'000	2018* DKK'000
4. Discontinued operations, continuing		
Operating profit/loss for the period up to transfer of control can be specified as follows:		
Revenue	53,002	12,763
Production costs	<u>(53,143)</u>	<u>(11,655)</u>
Gross profit/loss	(141)	1,108
Distribution costs	(3,477)	(811)
Administrative expenses	<u>(2,262)</u>	<u>(544)</u>
Operating profit/loss (EBIT)	(5,880)	(247)
Financial expenses	<u>(58)</u>	<u>0</u>
Profit/loss before tax	(5,938)	(247)
Tax on profit/loss for the year	<u>0</u>	<u>0</u>
Profit/loss for the year	(5,938)	(247)

During the financial year, the discontinued operation has affected the cash flow statement as follows:

Cash flows from operating activities	(5,938)	(247)
Cash flows from investing activities	0	0
Cash flows from financing activities	<u>(2,200)</u>	<u>0</u>
	(8,138)	(247)

	2019 DKK'000	2018* DKK'000
5. Fees to the auditor appointed by the Annual General Meeting		
Statutory audit services	225	175
Tax services	25	0
Other services	<u>135</u>	<u>150</u>
	385	325

* 2018 covers the period 1 October to 31 December 2018

Notes to financial statements

	2019 DKK'000	2018* DKK'000
6. Depreciation, amortisation and impairment losses		
Amortisation of intangible assets	2,593	96
Depreciation of property, plant and equipment	16,026	2,426
Impairment losses	3,406	0
	22,025	2,522

Depreciation, amortisation and impairment losses are distributed as follows:

Production costs	15,176	1,695
Distribution costs	4,893	241
Administrative expenses	1,956	586
	22,025	2,522

Depreciation, amortisation and impairment losses regarding discontinued operations is included in the above.

7. Other financial income

Interest income from group enterprises	3	12
	3	12

8. Other financial expenses

Financial expenses from group enterprises	61	3
Interest expenses from bank debt etc.	3,100	1,521
Interest expenses from lease liabilities	848	0
Exchange rate adjustments	0	689
Other financial expenses	201	1,680
	4,210	3,893

* 2018 covers the period 1 October to 31 December 2018

Notes to financial statements

	2019	2018*
	DKK'000	DKK'000
9. Income tax		
<i>Current tax:</i>		
Current tax on profit for the year	0	0
Current tax on Other comprehensive income for the year	0	0
Total current tax	0	0
<i>Deferred tax:</i>		
Adjustment of deferred tax asset/liability	0	0
Adjustment of deferred tax asset/liability in respect of prior years etc.	0	0
Total deferred tax	0	0
Total income tax		0
	2019	2018*
	DKK'000	DKK'000
Earnings before tax	(2,486)	2,194
Income from Investments in Group enterprises	(993)	(152)
Adjusted earnings before tax	(3,479)	2,042
Calculated tax at Danish statutory rate of 22%	(765)	449
Income/expenses not subject to tax	(51)	(149)
Unrecognized loss	816	(300)
Tax Charge	0	0
	2019	2018*
	DKK'000	DKK'000
10. Proposed distribution of profit/loss		
Retained earnings	(2,486)	2,194
	(2,486)	2,194

There are no proposed dividends for 2019 or 2018.

* 2018 covers the period 1 October to 31 December 2018

Notes to financial statements

	Goodwill	Other
	DKK'000	intangible
	DKK'000	assets
	DKK'000	DKK'000
11. Intangible assets		
2019		
Cost at beginning of year	147,648	2,775
Transfer	0	11,397
Additions	0	3,936
Total cost at end of year	147,648	18,108
Amortisation at beginning of year	0	(1,200)
Transfer	0	(6,446)
Amortisation for the year	0	(2,593)
Total amortisation at end of year	0	(10,239)
Carrying amount at end of year	147,648	7,869
2018		
Cost at beginning of year	147,648	2,775
Total cost at end of year	147,648	2,775
Amortisation at beginning of year	0	(1,104)
Amortisation for the year	0	(96)
Total amortisation at end of year	0	(1,200)
Carrying amount at end of year	147,648	1,575

Apart from goodwill, all other intangible assets are considered to have finite useful lives over which the assets are amortised, cf. the description of accounting policies. See note 14.

Notes to financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Lease- hold improve- ments DKK'000
12. Property, plant and equipment 2019				
Cost at beginning of year	0	60,105	21,256	9,528
Additions by change in accounting policy, IFRS 16	23,049	0	3,388	0
Transfer	(3,427)	(10,688)	(12,089)	(1,089)
Additions	0	5,397	553	1,054
Total cost as at end of year	19,622	54,814	13,108	9,493
Depreciation at beginning of year	0	(37,854)	(15,263)	(7,322)
Transfer	1,135	6,669	7,264	547
Depreciation for the year	(7,667)	(8,991)	(1,786)	(988)
Depreciation at end of year	(6,532)	(40,176)	(9,785)	(7,763)
Carrying amount at end of year	13,090	14,638	3,323	1,730
Of which right-of-use-assets				
Opening carrying amount at beginning of the year	23,049	7,116	3,388	0
Investments for the period	0	3,137	0	0
Depreciation for the period	(7,667)	(5,246)	(992)	0
Transfer, discontinued operations	(2,292)	(1,794)	0	0
Closing carrying amount at end of the year	13,090	3,213	2,396	0

Notes to financial statements

	Land and buildings DKK'000	Plant and machinery DKK'000	Other fixtures and fittings, tools and equipment DKK'000	Lease- hold improve- ments DKK'000
12. Property, plant and equipment, continuing				
2018				
Cost at beginning of year	0	59,293	20,601	9,461
Additions	0	812	655	67
Total cost at end of year	0	60,105	21,256	9,528
Depreciation at beginning of year	0	(36,554)	(14,378)	(7,081)
Depreciation for the year	0	(1,300)	(885)	(241)
Total depreciation at end of year	0	(37,854)	(15,263)	(7,322)
Carrying amount at end of year	0	22,251	5,993	2,206
Hereof finance lease	0	7,116	0	0

Notes to financial statements

	Invest- ments in group enterprises DKK'000		
13. Fixed asset investments			
2019			
Cost at beginning of year	<u>27,767</u>		
Total cost as at end of year	<u>27,767</u>		
Impairment losses at beginning of year	(24,711)		
Exchange rate adjustments	(43)		
Share of profit/loss for the year	995		
Other changes	<u>(417)</u>		
Impairment losses at end of year	<u>(24,176)</u>		
Carrying amount at end of year	<u>3,591</u>		
2018			
Cost at beginning of year	<u>27,767</u>		
Total cost as at end of year	<u>27,767</u>		
Impairment losses at beginning of year	(25,363)		
Exchange rate adjustments	9		
Share of profit/loss for the year	152		
Other changes	<u>491</u>		
Impairment losses at end of year	<u>(24,711)</u>		
Carrying amount at end of year	<u>3,056</u>		
	Ownership	Share of vot-	
	in percentage	ing rights	
Fixed asset investments			
System Frugt Oy AB, Finland	100	100	
System Frugt AB, Sweden	100	100	

Notes to financial statements

14. Impairment test of goodwill

Besides goodwill, there are no intangible assets with indefinite useful lives. At 31 December 2019, the goodwill accounted for DKK 148m, (2018: DKK 148m) for the Entity. The Entity has per 31.12.2019 performed impairment test of the carrying amount of goodwill at 31 December 2019 based on value in use. Impairment testing is performed in Q4 each year, based on the budgets or business plans approved by the Board of Directors.

The impairment test for cash-generating units compares the recoverable amount, equivalent to the present value of the expected future free cash flow, with the carrying amount of the individual cash-generating units. The expected future free cash flow is based on budgets and projections for subsequent years. Key parameters include net sales, gross profit margin, EBIT margin and future capital expenditure, and general growth expectations for the years after 2028.

Budgets and projections for the 2020-2028 period are based on business plans and external market surveys, assessing risks associated with key parameters and incorporating these in expected future free cash flows. The value for the period after 2028 takes into account the real growth and inflation expectations, which makes up a growth rate of 2.0% used in the terminal period (2018: 2.0%).

When calculating the recoverable amount of goodwill, a discount rate of 8.6% after tax is assumed. The discount rate is based on a risk-free interest rate of 0.0% (2018: 0.3%). The impairment tests performed at 31 December 2019 indicate significantly higher value in use of the assets compared to the carrying amounts, and the impairment tests are therefore not sensitive to changes in the significant conditions and factor.

Key assumptions from the impairment testing of goodwill are as follows:

	Value drivers based on average for the period 2020-2028	Value drivers based on average for the terminal period
2019		
Net sales growth	1.3%	2.0%
Gross margin	30.0%	31.4%
EBITDA margin	9.4%	10.8%
EBITA margin	5.3%	7.7%
Intangible fixed assets/Sales	0.0%	0.0%
Tangible fixed assets/Sales	38.9%	28.3%
NWC/Sales	38.4%	28.3%

Notes to financial statements

14. Impairment test of goodwill, continuing

	Value drivers based on average for the period 2018-2027	Value drivers based on average for the terminal period
2018		
Net sales growth	4.8%	2.0%
Gross margin	20.3%	20.5%
EBITDA margin	3.6%	4.0%
EBITA margin	2.7%	3.6%
Intangible fixed assets/Sales	14.3%	3.2%
Tangible fixed assets/Sales	2.1%	1.2%
NWC/Sales	6.3%	6.2%

15. Deferred tax assets and deferred tax liabilities

2019 DKK	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, financial non- current assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Deferred tax, short term liabilities	Total deferred tax
Deferred tax beginning of year	5,079	326	0	(205)	0	2,667	0	0	7,867
Charge to the income statement	(519)	3,136	0	19	0	(2,638)	0	0	(2)
Other adjustments	0	0	0	0	0	385	0	0	385
Deferred tax end of year	4,560	3,462	0	(186)	0	414	0	0	8,250

Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	8,436
Deferred tax liability	(186)
Deferred tax asset year end, net	8,250

2018 DKK	Deferred tax, intangible assets	Deferred tax tangible assets	Deferred tax, financial non- current assets	Deferred tax, current assets	Deferred tax, provisions	Deferred tax, taxable losses prior years	Deferred tax, long term liabilities	Deferred tax, short term liabilities	Total deferred tax
Deferred tax beginning of year	5,059	(142)	0	(299)	0	3,049	0	0	7,667
Charge to the income statement	20	468	0	94	0	(582)	0	0	0
Other adjustments	0	0	0	0	0	200	0	0	200
Deferred tax end of year	5,079	326	0	(205)	0	2,667	0	0	7,867

Deferred tax is presented in the balance sheet as follows:

Deferred tax asset	8,072
Deferred tax liability	(205)
Deferred tax asset year end, net	7,867

Notes to financial statements

15. Deferred tax assets and deferred tax liabilities, continuing

Management has assessed the deferred tax asset based on the estimated tax results for the coming years. It is Management's expectations that the Company will be able to realise the recognised tax asset over the coming 3 years. Management has assessed the coming years' budgets and expectations and has recognised equivalent tax-loss carryforwards.

	2019 DKK'000	2018 DKK'000
16. Trade receivables		
Trade receivables	11,184	2,853
Loss allowance of trade receivables	(32)	(15)
	11,152	2,838
	2019 DKK'000	2018 DKK'000
Loss allowance at beginning of year	15	15
Loss allowance in the year	17	0
Realised in the year	0	0
Loss allowance at end of year	32	15

In determining the recoverability of a trade receivable, the Entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk is limited due to the fact that the customer base is large and unrelated. Trade receivables as of 1 October 2018 amounted to DKK 12.3 million.

System Frugt A/S writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery. Changes in impairment of trade receivables in 2019 amounted to 0.0 million. Actual losses on debtors in 2019 and 2018 have been immaterial in relation to the size of the Group and its activities, and no material losses are expected in 2020, why no further provisions have been made for expected losses. The provision of DKK 0.0 million constitutes 0.0% of net revenue for the year, which is considered sufficient to cover future expected losses.

Notes to financial statements

16. Trade receivables, continuing

Overdue trade receivables not written down are broken down as follows:

	2019 DKK'000	2018 DKK'000
Overdue 1-30 days	1,114	30
Overdue 31-60 days	720	0
Overdue 61-90 days	228	0
Over 90 days	56	0
	2,118	30

Undue not impaired receivables are split as follows:

Denmark	6,341	1,989
Sweden	2,493	819
Norway	12	0
Other countries	188	0
	9,034	2,808

The Entity does not have significant credit risks related to a single customer or regarding sales to specific markets.

17. Prepayments

Prepayments relate to prepaid costs, including licenses and insurance.

	Number	Par value DKK'000	Nominal value DKK'000	Recorded par value DKK'000
18. Contributed capital and own shares				
A shares	492,128	493	493	493
B shares	4,436	4	4	4
C shares	13,436	13	13	13
	510,000		510	510

Each A share of a nominal value of DKK 1 carries one vote at the Annual General Meeting. B shares and C shares carry no voting rights but have advance of dividend and other disbursements.

In addition, the Company has a portfolio of own A shares of a nominal value of DKK 14,345k equal to 2.63% of total share capital. This occurred as part of the merger in 2017/18 between System Frugt Holding A/S and System Frugt A/S with System Frugt A/S as the continuing company.

Notes to financial statements

	Instalments within 12 months 2019 DKK'000	Instalments between 12-60 months 2019 DKK'000	Outstanding after 60 months DKK'000
19. Financial liabilities at amortised cost			
Subordinate loan capital	16,502	0	0
	16,502	0	0
	Instalments within 12 months 2018 DKK'000	Instalments between 12-60 months 2018 DKK'000	Outstanding after 60 months DKK'000
Subordinate loan capital	0	6,000	0
	0	6,000	0

Fair value & terms

The fair value of the subordinate loan capital at 31 December 2019 is equivalent to DKK 16,502k compared to the carrying amount of DKK 16,502k.

The interest rate of the subordinate loan capital is between 2-6 % p.a. with termination in 2020.

	Long-term borrowings DKK'000	Short-term borrowings DKK'000	Lease liabilities DKK'000	Total liabilities from financing activities DKK'000
20. Reconciliation of liabilities arising from financing activities				
Beginning of year, 2019	6,000	25,193	5,464	36,657
Additions by change of accounting policies, IFRS 16	0	0	26,437	26,437
New lease liabilities	0	0	3,137	3,137
Cash flows	10,502	(5,150)	(10,252)	(4,900)
Transfer	(16,502)	16,502	(6,183)	(6,183)
Other	0	0	128	128
End of year, 2019	0	36,545	18,731	55,276
Beginning of year, 2018	10,000	44,936	5,498	60,434
Cash flows	(4,000)	(19,743)	(34)	(23,777)
End of year, 2018	6,000	25,193	5,464	36,657

Notes to financial statements

21. Financial instruments

Disclosure on forward exchange contracts acquired to hedge liabilities

Other receivables include currency hedging of future cash flow regarding purchase of goods. The amount per 31.12.2019 is DKK 487k. The forward exchange contracts have been acquired to hedge the foreign currency risk of future trade payables in USD. The exchange gain has been set off against the value adjustments of the hedged payables in the income statement. The forward exchange contracts have a term of 0-16 months. The forward exchange contracts have been entered into with the Company's usual bank.

For 2018 the amount per 31.12.2018 was DKK 2,230k. The forward exchange contracts have been acquired to hedge the foreign currency risk of trade payables in USD.

22. Mortgages and securities

The Company has issued letters of credit and payment guarantees through its bank to suppliers amounting to DKK 52k (2018: DKK 52k).

As security for all accounts with Jyske Bank, a floating charge has been granted of nominal DKK 30,000k over System Frugt A/S' unsecured claims arising from the sale of goods and services and inventories. The carrying amount is DKK 58,799k at 31.12.2019 (2018: 58,957k).

A negative pledge is registered regarding System Frugt A/S for unsecured claims arising from the sale of goods and services.

23. Contingent liabilities

The Entity has committed itself to fixed price and quantity contracts towards its suppliers of goods and services on delivery of raw material in the coming financial years. The contractual commitments from the concluded contracts at 31 December 2019 amount to DKK 68,381k (2018: DKK 82,921k).

The Entity's bank has issued a guarantee for non-recognised import letters of credit with an open balance at the balance sheet date totalling DKK 469k (2018: DKK 398k).

Joint taxation arrangement

The Company is party to a mandatory Danish joint taxation arrangement with Anpartsselskabet af 9. September 2010 serving as the administration company. The joint taxation arrangement complies with general Danish tax legislation and has included other Danish sister companies due to common ultimate ownership. From 16 July 2015, the Company is partially jointly and secondarily liable for obligations, if any, relating to withholding of tax on interest, royalties and dividend for the jointly taxed companies. However, secondary liability cannot exceed an amount equivalent to the share of capital of the Company which is owned directly or indirectly by the ultimate parent.

Notes to financial statements

24. Related parties and group relations

The following parties exercise control over System Frugt A/S:

Name	Registered office	Basis for control
Anpartsselskabet af 9. september 2010	Avderødvej, Kokkedal	Shareholder holding the majority of voting rights
BWB Partners II K/S	Avderødvej, Kokkedal	Shareholder holding the majority of voting rights in Anpartsselskabet af 9. september 2010

Transactions with related parties

All transactions were made on terms equivalent to arm's length principles.

Apart from the capital increase in 2018, the Company had the following transactions with related parties in the financial year:

	Group enterprises DKK'000	Key persons in management DKK'000	Other related parties DKK'000	Total DKK'000
2019				
Sale of goods	29,852	0	0	29,852
Sale of services	739	0	0	739
Remuneration, cf. note 3	0	3,058	0	3,058
Trade receivables	7,987	0	0	7,987
Trade payables	3,471	0	0	3,471
Loans	7,326	0	10,502	17,828
Interest on loans	57	0	502	559
2018				
Sale of goods	12,049	0	0	12,049
Sale of services	165	0	0	165
Remuneration, cf. note 3	0	523	0	523
Trade receivables	7,202	0	0	7,202
Loans	0	0	6,000	6,000
Trade payables	1,026	0	0	1,026
Interest on loans	3	0	326	329

25. Financial risks and financial instruments

Financial risk factors refer to fluctuations in the Entity's results, cash flows and financial position due to changes in financial exposure. The overall objective of risk monitoring and control is to provide cost-effective financing and to minimise potential adverse impacts from market fluctuations.

Price risk

The Entity's most significant operating risk relates to the development in raw material prices and the possibility of passing on increases to sales prices. The Entity has well-developed policies and procedures to reduce these price risks.

Notes to financial statements

25. Financial risks and financial instruments, continuing

Exchange rate risk

A considerable part of the Entity's purchase is made in USD, which results in a risk of exchange rate fluctuations and a derived impact on financial performance, equity and cash flows. It is the Entity's policy to hedge these commercial foreign exchange risks mainly by using forward exchange contracts or options.

The main part of the Entity's sales of goods is made in DKK or EUR, which reduce the exchange rate risk significant. Management assess that the Entity is not sensitive to variations in exchange rates.

Interest rate risk

The interest rates of credit facilities are a mix of fixed and variable interest. System Frugt A/S does not use derivative contracts to hedge the interest rate risks. System Frugt A/S exclusively has fixed-rate interest-bearing debt.

Liquidity risk

System Frugt A/S's owners made a capital increase in the financial year for the purpose of repaying the Company's banks. This has been a step in Management's and the owners' wish to reduce liquidity risk.

Treasury management is centralised and ensures that sufficient financial resources are available to meet planned requirements. This is done by ensuring that the cash flow on a monthly basis matches the planned cash needs.

Credit risk

Credit risk mainly relates to trade debtors, other receivables and cash at banks. The aggregate amounts recognised under these items in the balance sheet constitute the maximum credit risk. Receivables relate to sale of products. System Frugt A/S conducts individual assessments of customer creditworthiness. Cash is held with banks with high credit ratings.

Fair values measurements

System Frugt A/S use financial instruments on forward exchange contracts acquired to hedge liabilities. The forward exchange contracts have been acquired to hedge the foreign currency risk of trade payables in USD. The exchange gain has been set off against the value adjustments of the hedged payables in the income statement.

Financial instruments are valued using an income approach (discounted cash flow). Expected future cash flows are based on relevant observable rates and discounted using a discount rate that reflects the risk of the relevant counterparties (level 2).

Notes to financial statements

25. Financial risks and financial instruments, continuing

The classification of financial instruments measured at fair value is disaggregated in accordance with fair value hierarchy:

- Quoted prices in an active market for identical instruments (level 1)
- Quoted prices in an active market for similar assets or liabilities or other valuation methods where all significant inputs are based on observable market data (level 2)
- Valuation methods in which any significant input is not based on observable marked data (level 3)

The Entity does not have any other assets or liabilities measured at fair value.

On initial recognition in the balance sheet, derivative financial instruments. Derivative financial instruments are recognised under other receivables or other payables.

The Management is of the opinion that the carrying amounts of all other financial assets and liabilities recognised in the financial statements approximate their fair values.

Capital structure

The Company's Management assesses whether the Entity's capital structure is in line with the interests of the Company and its shareholders. The overall objective is to ensure a capital structure that supports long-term profitable growth. As of 31 December 2019, the Entity's interest-bearing debt net, including leases, comprises DKK 54 million (2018: DKK 35 million), which is considered a reasonable level compared to the current need for financial flexibility.

26. Events after the reporting period

The break-out and spreading of COVID-19 in the beginning of 2020 has so far not had negative impact on the turnover or result of System Frugt. It has however created uncertainties about the future activity level. This relate to cancelled orders, missing supplies, lock-down of production i.e.

It is the judgement of the management, that the current situation will not have severe impact on the long run, and that System Frugt will manage through the difficult and challenging period.

Besides the above, nothing has happened after the balance sheet date, that could impact the content of the financial statement.

Accounting policies

Reporting class

This annual report has been presented in accordance with International Financial Reporting Standards as adopted by the EU and additional Danish disclosure requirements for the financial statements of class C enterprises (large), cf. the Danish Executive Order on IFRS (IFRS-bekendtgørelsen) issued in accordance with the Danish Financial Statements Act.

Accounting policies are unchanged compared to last year except implementation of IFRS 16 (see note 1) and some reclassifications between accounts and within the cash flow statement.

Non-comparability

The Company's Management decided in 2018 to change financial year to 01.01.-31.12. from previously 01.10.-30.09. Consequently, the comparative figures are not directly comparable (presented for the three-month period 01.10.2018-31.12.2018).

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Entity, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when the Entity has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Entity, and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements

Referring IFRS BKG 8 and to section 112(2) of the Danish Financial Statements Act, no consolidated financial statements have been prepared.

Accounting policies

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date, or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Property, plant and equipment, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign subsidiaries and associates that are independent entities, the income statements are translated at average exchange rates for the months that do not significantly deviate from the rates at the transaction date. Balance sheet items are translated using the exchange rates at the balance sheet date.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables or other payables.

Changes that are complying with the requirements for hedging of future cashflow of a recognised asset or a recognised liability are recorded in the other comprehensive income statement.

Income statement

Revenue

Revenue from the sale of manufactured goods and goods for resale is recognised when control of goods sold has transferred to the customers. Revenue is recognised net of VAT, duties and sales discounts and is measured at fair value of the consideration fixed.

Production costs

Production costs comprise expenses incurred to earn revenue for the financial year. Production costs comprise direct and indirect costs for raw materials and consumables, wages and salaries, rent and lease as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment included in the production process. In addition, the item includes ordinary writedown of inventories.

Distribution costs

Distribution costs comprise costs incurred for sale and distribution of the Entity's products, including wages and salaries for sales staff, advertising costs, travelling and entertainment expenses, etc as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment attached to the distribution process.

Accounting policies

Administrative expenses

Administrative expenses comprise costs incurred for the Entity's administrative functions, including wages and salaries for administrative staff and Management, stationery and office supplies as well as amortisation, depreciation and impairment losses relating to intangible assets and property, plant and equipment used for administration of the Entity.

Other operating income

Other operating income comprises income of a secondary nature as viewed in relation to the Entity's primary activities.

Income from investments in group enterprises

Income from investments in group enterprises comprises the pro rata share of the individual enterprises' profit/loss after full elimination of internal profits or losses.

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises etc.

Other financial expenses

Other financial expenses comprise interest expenses, including interest expenses on payables to group enterprises, leases etc.

Tax on profit/loss for the year

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

The Entity is jointly taxed with the Parent and all the Parent's other Danish subsidiaries. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Balance sheet

Goodwill

Goodwill comprises the amount by which the cost of the acquired operation exceeds the established fair value of identifiable net assets, as recognized in the acquisition analysis. In connection with the acquisition of operations, goodwill is allocated to cash generating units. Since goodwill has an indefinite useful life, it is not amortized. Thus, it is not possible to determine a useful life. Instead, goodwill is subject to impairment testing either annually or when an indication of an impairment requirement arises. The carrying amount comprises the cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the Entity's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

Accounting policies

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment of goodwill is recognised directly in profit/(loss). An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit/(loss) on disposal.

Other intangible assets

Intellectual property rights etc comprise acquired intellectual property rights assets.

Intellectual property rights acquired are measured at cost less accumulated amortisation. Patents are amortised over their remaining duration, and licences are amortised over the term of the agreement, which is estimated at 5 years.

Intellectual property rights etc are written down to the lower of recoverable amount and carrying amount.

Property, plant and equipment

Plant and machinery as well as other fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation.

Leases that meet the definition in IFRS 16 are recognized as an asset in the balance sheet (property, plant and equipment), with depreciation recognized in the income statement.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of the following estimated useful lives of the assets:

Buildings	3 years
Plant and machinery	3-8 years
Other fixtures and fittings, tools and equipment	3-6 years
Leasehold improvements	5 years

Estimated useful lives and residual values are reassessed annually.

Items of plant and equipment are written down to the lower of recoverable amount and carrying amount.

Accounting policies

Leases

Accounting policies from January 1, 2019

When entering into an agreement, the company assesses whether an agreement is a lease agreement or contains a lease element.

The right-of-use asset is measured at cost, which is calculated as the present value of the lease obligation plus any direct costs associated with entering the lease and prepaid leasing payments.

The right-of-use asset is depreciated on a straight-line basis over the shortest period of the lease term and the useful life of the asset.

The company leases vehicles which include a service element in the payments to the lessor. This service is deducted from the lease payment when measuring the lease obligation. Where the company cannot reliably separate leasing and non-leasing items, it is considered a single leasing payment.

Short leases with a maximum lease term of 12 months and leases where the underlying asset has a low value are not recognized in the balance sheet.

The lease obligation, which is recognized under "Lease liabilities", is measured at the present value of the remaining lease payments, discounted by the company's incremental loan interest rate, if the implicit interest rate is not stated in the lease agreement or can reasonably be determined. The lease obligation is subsequently adjusted if:

- The value of the index or interest rate on which the lease payments are based changes.
- There is a change in the exercise of options to extend or shorten the lease period due to a material event or material change in circumstances which are within the control of the lessee.
- The lease term is changed as a result of exercising an option to extend or shorten the lease term.

Subsequent adjustment of the lease obligation is recognized as a correction to the right-of-use asset. However, if the right-of-use asset has a value of DKK 0, a negative reassessment of the right-of-use asset is recognized in the income statement.

Accounting policies prior to January 1, 2019

Leases concerning tangible assets in which the Group essentially carries the same risks and enjoys the same benefits that direct ownership would entail are classified as finance leases. Finance leases are recognized at the start of the lease period at the lower of the lease object's fair value and the present value of minimum lease fees. Finance leases are recognized in the balance sheet as tangible assets and financial liabilities, respectively. Future lease payments are divided between repayment of the liabilities and financial expenses whereby each accounting period is charged with an amount of interest corresponding to a fixed-interest rate on the liability recognized during the respective period.

Accounting policies

Lease assets are depreciated according to the same principles that apply to other assets of the same type. Costs for leases are divided between depreciation and interest in the income statement.

Leasing of assets, where the lessor essentially remains the owner of the asset, is classified as operating lease. Lease fees are recognized on a straight-line basis during the leasing period. Operating leases are recognized in profit or loss as an operating expense. Leasing of cars and computers is normally treated as an operating lease. The value of these leases is not considered to be significant.

Investments in group enterprises

Investments in group enterprises are recognised and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity value plus unamortised goodwill and plus or minus unrealised intra-group profits and losses.

Upon distribution of profit or loss, net revaluation of investments in group enterprises is transferred to Reserve for Net revaluation according to the equity method under equity.

Investments in group enterprises are written down to the lower of recoverable amount and carrying amount.

Other investments

Other investments comprise unlisted investments measured at the lower of cost and net realisable value.

Inventories

Inventories are measured at the lower of cost using the FIFO method and net realisable value.

Cost consists of purchase price plus delivery costs. Cost of manufactured goods and work in progress consists of costs of raw materials, consumables, direct labour costs and indirect production costs.

Indirect production costs comprise indirect materials and labour costs, costs of maintenance of, depreciation on of and impairment losses relating to machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management. Finance costs are not included in cost.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less expected credit losses.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Accounting policies

Cash

Cash comprises cash in hand and bank deposits.

Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount and the tax-based value of assets and liabilities, for which the tax-based value is calculated based on the planned use of each asset or the planned settlement of each liability.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Leases

Leases that meet the definition in IFRS 16 are recognized as liabilities and is measured at the time of entering into the contract to the present value of future lease payments. Afterwards leases are measured at amortised cost, which usually corresponds to nominal value.

Other financial liabilities

Other financial liabilities are measured at amortised cost, which usually corresponds to nominal value.

Income tax receivable or payable

Current tax receivable or payable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Joint taxation contributions receivable or payable

Current joint taxation contributions receivable or joint taxation payable is recognised in the balance sheet, calculated as tax computed on the taxable income of the year, which has been adjusted for prepaid tax. For tax losses, joint taxation contributions receivable are only recognised if such losses are expected to be used under the joint taxation arrangement.

Deferred income

Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at cost.

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities as well as cash and cash equivalents at the beginning and the end of the financial year. Cash flows from operating activities are presented using the indirects method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments as well as purchase, development, improvement and sale, etc of intangible assets and property, plant and equipment, including acquisition of assets held under finance leases.

Accounting policies

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares and payment of dividend.