

# **Milestone Systems A/S**

*CVR 20 34 11 30*

## **Annual Report 2019**

The annual report 2019 was presented and adopted at the company's Annual General Meeting on 14 April 2020

Anne Krebs  
Chairman of the meeting

**Milestone Systems A/S,**  
Banemarksvej 50C, DK-2605 Brøndby, Denmark  
Tel: +45 88 300 300 – [www.milestonesys.com](http://www.milestonesys.com)

# Table of Contents

## **Signatures**

---

Statement by management	1
Independent auditor's report	2

## **Management's Review**

---

Company information	5
5-year summary	6
Management's review	7

## **Financial Statements**

---

Accounting policies	12
Income statement	17
Balance sheet	18
Statement of changes in equity	20
Cash flow statement	21
Notes	22

# Statement by management

The Executive Management and Board of Directors have today considered and adopted the Annual Report of Milestone Systems A/S for the financial year January 1, – December 31, 2019.

The Annual Report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the Financial Statements and the Consolidated Financial Statements give a true and fair view of the financial position at December 31, 2019, of the Company and the Group and of the results of the Company and Group operations and Group cash flows for 2019.

The management review contains, in our opinion, a fair statement of the facts to which it relates and describes the Group's significant risks and uncertainties.

We recommend the Annual Report to be adopted at the Annual General Meeting.

Copenhagen, March 27, 2020

## Executive Management

Lars Thinggaard

Lars Larsen

## Board of Directors

Kenneth Hune Petersen  
Chairman

John Sergio Blem  
Vice Chairman

Henrik Friberg Jacobsen

# Independent auditor's report

To the Shareholder of Milestone Systems A/S

## Opinion

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, 2019, 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, 2019 in accordance with the Danish Financial Statements Act.

We have audited the Consolidated Financial Statements and the Parent Company Financial Statements of Milestone Systems A/S for the financial year 1 January – 31 December 2019, which comprise income statement, balance sheet, statement of change in equity and notes, including a summary of significant accounting policies, for both the Group and the Parent Company, as well as consolidated statement of cash flows ("financial statements").

## 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 Financial Statements section of our report. 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 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 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 Financials Statements Act.

Based on the work we have performed, in our view, Management's Review is in accordance with the Consolidated Financial Statements and the Parent Company Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement in Management's Review.

# Independent Auditor's Report

## Management's Responsibilities for the 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 Parent 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 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 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 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 Group and the Parent Company to cease to continue as a going concern.

# Independent Auditor's Report

- Evaluate the overall presentation, structure and contents of the financial statements, including the 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.

Copenhagen, March 27, 2020

## **PricewaterhouseCoopers**

Statsautoriseret Revisionspartnerselskab  
CVR No 33 77 12 31

Allan Knudsen  
State Authorised Public Accountant  
mne29465

Thomas Beltrão-Primdahl  
State Authorised Public Accountant  
mne45342

# Company Information

<b>The Company</b>	<p>Milestone Systems A/S Banemarksvej 50C DK-2605 Brøndby Denmark</p> <p>Telephone: (+45) 8830 0300 Website: <a href="http://www.milestonesys.com">www.milestonesys.com</a> CVR no / VAT no: DK20341130 Fiscal year: January 1<sup>st</sup> – December 31<sup>st</sup> Domicile: Brøndby, Denmark</p>
<b>Board of Directors</b>	<p>Kenneth Hune Petersen (Chairman) John Sergio Blem (Vice Chairman) Henrik Friberg Jacobsen</p>
<b>Executive Management</b>	<p>Lars Thinggaard (President &amp; CEO) Lars Larsen (Executive Director &amp; CFO)</p>
<b>Legal Counsel</b>	<p>Kromann Reumert Sundkrogsgade 5 DK 2100 København Ø</p>
<b>Auditors</b>	<p>PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK 2900 Hellerup</p>
<b>Bankers</b>	<p>Nordea Bank A/S Vesterbrogade 8 DK 0900 København C</p>
<b>General Meeting</b>	<p>The annual general meeting will be held at Banemarksvej 50C, DK-2605 Brøndby on April 14, 2020</p>

# 5-year summary

## Consolidated key figures

**DKK'000**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Income Statement</b>					
Net revenue	1,026,494	934,445	881,138	709,037	602,423
Gross margin	967,305	858,117	808,756	651,126	567,960
Operating income (EBIT)	124,448	194,792	170,990	49,520	64,413
Net financials	6,131	14,273	-16,779	1,506	11,018
Profit before corporate tax	130,579	209,065	154,211	51,026	75,431
Net income	98,923	170,998	117,334	41,897	58,262
<b>Balance Sheet</b>					
Balance sheet total	1,435,340	1,156,690	887,202	703,472	585,435
Investment in tangible assets excluding lease assets	26,964	28,449	13,793	11,450	11,276
Equity	681,291	586,553	438,746	294,977	248,359
<b>Cash Flow Statement</b>					
Cash Flow operating activities	240,093	130,446	143,152	48,025	136,130
Cash Flow investing activities	-114,690	-82,049	-95,223	-96,380	-88,830
Cash Flow financing activities	-26,004	0	0	0	-2,941
Change in cash and cash equivalents	99,399	48,397	47,929	-48,354	44,359
<b>Employees</b>					
Average no. of full-time employees	776	658	586	569	472
Number of employees at year-end	865	733	635	599	554
<b>Key Figures</b>					
Invoiced Revenue	1,165,573	1,031,946	938,698	805,260	701,414
Gross margin	94.2%	91.8%	91.8%	91.8%	94.3%
EBIT margin	12.1%	20.8%	19.4%	7.0%	10.7%
Financial solidity	2.1	2.0	2.0	2.4	2.4
Return on Equity	15.6%	33.4%	32.0%	15.4%	26.1%

The key figures and financial ratios above are not fully comparable throughout the 5 years due to adopting IFRS 15 and 16 in the financial statements adopted in 2019. No comparative information has been restated as the simplified approach has been applied.



# Management's Review

## Main Activities

Milestone is a global leader in open platform IP Video Management Software (VMS) and Network Video Recorders (NVRs) for IP, network-based video surveillance. We deliver both an open business and an open technology platform, on which our community of hardware and software partners can grow their business and integrate their video solutions for security and beyond security purposes.

The Company operates as a standalone company in the Canon Group with headquarters in Denmark and subsidiaries in fifteen countries.

## Financial Review

In 2019, the Milestone Group's invoiced revenue grew to DKK 1,166 million, corresponding to an increase of 13 percent. After adjustments for revenue deferrals, impact from cashflow hedging and sales incentives, the net revenue was DKK 1,026 million. This is an increase of DKK 92 million or 10 percent compared with 2018. The positive revenue development was mainly derived from an increase in license and Care™ sales. Demand for VMS solutions continues to grow in all regions.

An operating income (EBIT) of DKK 124 million was recorded for the year, compared with DKK 195 million in 2018. The decrease of 36 percent was a consequence of establishing Arcules Inc. and the subsequent sale of the related activities in 2018, the increase of our development capacity and investments in new headcount to accelerate further growth.

Profit before corporate tax was DKK 131 million in 2019, compared with DKK 209 million in 2018, corresponding to a decrease of 37 percent. Milestone delivered a satisfactory financial result in which profit was in line with expectations and the planned decrease was due to the significant investments in growth initiatives.

The total value on our balance sheet as of December 31, 2019, was DKK 1,435 million, compared with DKK 1,157 million on December 31, 2018. The total equity amounted to DKK 681 million at the end of 2019, compared with DKK 587 million at the end of 2018. Cash at bank and in hand as of December 31, 2019, was DKK 346 million, compared with DKK 249 million on December 31, 2018. As a result, Milestone's financial position is considered strong and healthy.

## Development Project Activities

Development activities are mainly carried out at Milestone Systems. In 2019, Milestone Systems maintained the trend of increasing investments in Research and Development (R&D) activities. The Milestone Systems product road map and development projects support the ambition to continue to be a leader in the open platform video management software industry.

The major part of the development activities involves staffing and Information Technology (IT) costs. The product related development cost is capitalized as an intangible fixed asset in accordance with the Danish Financial Statements Act.

## Knowledge Resources

To maintain the company's status as a leader in the industry, it is crucial that Milestone Systems is able to recruit and retain employees with high technical and commercial skills.

Milestone Systems is focusing on retention and development of employees by demonstrating respect for the individual, creating a motivating workplace, and offering opportunities for professional and personal development.

## **Risks**

96% of Milestone Systems' revenue is generated from international business activities and transactions in either EUR or USD currencies. Consequently, cash flow and equity are influenced by the development in international currency exchange rates.

It is Milestone Group's policy to cover commercial currency risks. The USD exposure is partially covered by a cash flow hedge and partially by maintaining a significant part of the Group's cost base in USD. For EUR, the Group has a limited currency exchange risk due to the Exchange Rate Mechanism II (ERMII) treaty between Denmark and the European Union.

No speculative currency positions were taken.

## **Report on Corporate Social Responsibility**

### ***(The Danish Financial Statement Act §99a)***

We recognize our responsibility as a global leader and believe in conducting business in a sound and open manner. We strive to make our products efficient and to optimize them to have a positive impact on the environment. We use our company policies and guidelines to maintain a culture that supports the protection of labor rights, safe working conditions, human rights and prevents corruption. Having this approach to our operations and impact, and acting globally, Milestone also actively supports and contributes to the UN Sustainable Development Goals.

## **Business Modul**

We create value through our open platform, people and partners. Our business model defines the way we create value and results. It determines the key resources we bring to our products, services and processes, and the impact we create for customers, employees, owners, and society.

We are a global leader in open platform IP Video Management Software (VMS) and Network Video Recorders (NVRs). We deliver both a business and technology platform, on which our community of hardware and software partners can grow their business and integrate their video solutions for security and beyond security purposes.

We operate our business through a two-tier distribution and partner channel and our solutions are available in most countries around the world.

### **Our core activities**

Our purpose is to Make the World See. It is at the very center of our core activities, which are defined within four strategy pillars: Organization, Markets, Products and Go-to-market.

We strive to make Milestone a strong, high-performing organization with robust strategic leadership abilities so that we can sustain our perpetual circle of activity. Using this organization, our goal is to reach a leadership position in each of the markets we operate in, and we prioritize opportunities that will help us to achieve this goal. We develop products that meet customer needs, and that are intuitive and easy to use. Then, to go-to-market, we establish and grow a scalable partner and distribution network.

### **Our resources**

We have a Scandinavian leadership model and believe that cooperation with our employees is key to reaching our targets.

Following this model, we invest in people, culture, partner relations, technology, and innovation to succeed with our strategy.

## **Our impact**

We influence and create value for our stakeholders by creating sustainable and reliable solutions that protect people and assets. The impact of our activities results in satisfied customers, a strong brand, jobs, and new competencies.

Our return on investment benefits Canon Inc., our employees and our customers.

## **People and working environment**

For Milestone, the continuous development of the competencies, social, mental and physical well-being, and safety of our employees are of the highest importance. To realize our strategic priorities, we rely on people and their expertise, skills and diversity.

Our People First principle encompasses these values together with our belief that to safeguard the long-term, sustainable growth of our business, we need to prioritize the ongoing development of our people.

All new Milestone employees attend an onboarding bootcamp led by People and Organization with presentations from senior management and employees. Part of the bootcamp focuses on Milestone's Code of Conduct, our values and company Behavior Compass. To optimize people growth and enhance responsible behavior after the bootcamp, we have implemented a global strategic initiative, "Shaping our Culture".

As part of our focus on the social, mental and physical well-being of all employees we have implemented our Good Health and Well-being programs that include a number of global initiatives. These include sport and training facilities, healthy food and encouraging our employees to work in a way that keeps their personal life, professional life, and family life in harmony. With around 900 employees, 77 nationalities and a presence in more than 20 countries, diversity is part of our identity. To make this relevant for everyone at Milestone, we apply non-financial KPIs that relate to working conditions, diversity and equality in the workplace and in talent recruiting. Our 2019 annual global employee survey showed high scores across the board, exceeding the industry benchmark on satisfaction and motivation. We also saw an exceptionally high score for equal opportunities, which reflects our ongoing focus on gender equality and preventing discrimination based on nationality or race.

We use surveys throughout the year to assess our physical and mental working environment, and to monitor employee retention. Should any employee have concerns about irregular practice, or GDPR requests on privacy rights, we have set up confidential channels for reporting such issues.

## **The environment and climate**

Milestone is aware that our business has an impact on the climate and on the environment, and that to some extent, we can influence whether this impact is negative or positive. To make this a positive impact, our policy is to actively encourage all employees to become more climate and environmentally conscious in their work processes. As part of our contribution to the overall climate and environmental agenda, we are raising awareness of the impact that our business has on these areas in our decision-making process. For example, in 2019 we have:

- Worked actively to reduce our print consumption and purchased more sustainable paper items
- Expanded our food waste schemes
- Resold or donated as much IT equipment and furniture as possible for non-profit purposes
- Focused on environmentally friendly interior solutions in our offices
- Continued to replace office lighting with LED lighting.

Going forward, we will continue to improve our climate and environmental policy and strive for an even better balance between price, quality and sustainability, and increase our focus on optimizing our travel activities and how we use transport.

Looking at how we use technology, we believe that smart technology design can minimize adverse effects on the environment. Milestone is a leading player when it comes to smart technology design and software efficiency and our policy is to focus on continuing to make our IP video management software and video recording hardware more efficient.

Our effort to minimize the negative environmental impact is a win/win for both the environment and our customers, by reducing power consumption we can save costs in security installations, as well as extend the lifespan of our hardware. To comply with legislative requirements, it is our policy to abide by applicable laws and when relevant, we include environmental protection in our contracts with partners.

We also require our distributors to comply with local environmental legislation, including the European Union (EU) Battery Directive, the EU WEEE Directive and environmental fees.

## **Human rights, anti-corruption and anti-bribery**

Milestone's approach to human rights, anti-corruption and bribery is firmly based on our company values and company behavior compass.

Milestone is a co-creator of the Copenhagen Letter ([copenhagenletter.org](http://copenhagenletter.org)) a technology declaration to further an open and honest public conversation about the power of technology and how it should enhance the quality of life. As a result of our involvement, in 2019, Milestone introduced the Copenhagen Clause into our contract framework. The Clause encourages our partners to involve themselves in the important discussion about the responsible use of technology, and to sign the Copenhagen Letter and adopt the Copenhagen Clause into their own agreements. In the spirit of the Letter, we are holding ourselves accountable, replacing words with real actions through our initiative for Responsible Use of Technology. With this initiative, we are actively promoting, externally and internally, how we can foster trust and a humanity-centered approach to the use of technology.

Our anti-corruption policy is clearly documented in our code of conduct that we require all employees to sign and comply with. In addition, we require our management and employees to complete training raise their awareness acts which, directly or as a result of circumstances, may be seen as unlawful or unethical activities. It is ongoing activities and was latest conducted at our Kick-off 2020 in all regions, and we also continuously during 2019 had awareness of anti-corruption as a risk factor in our geo-expansion activities.

Employees and external stakeholders are encouraged to raise any concerns they may have regarding business integrity through a direct email hotline on the Milestone website. To make sure all employees and relevant stakeholders are aware of the process, we communicate with them about the whistleblower system.

At Milestone, we require our employees, partners, and customers to comply with applicable laws and to respect human rights. We do not accept unethical discrimination, violation of human rights or child labor, and we respect the individual's right to a safe working environment. Milestone is aware of the many aspect of video surveillance and for many years, Milestone has incorporated human rights into our licensing terms. In 2019 we added a Copenhagen Clause to further responsible use of technology.

## **Corporate Social Responsibility risks**

Our global activities may expose us to risks and uncertainties related to our corporate social responsibility. Growing fast and expanding internationally, as we take advantage of business opportunities, we also take precautions to minimize the risk of negative impact on the environment, climate, working conditions, and human rights.

**This negative impact could be:**

- Power consumption related to products and solutions
- Energy consumption and waste disposal in our operations and offices
- Minerals used by suppliers
- Use of Milestone's software and solutions which could violate personal integrity and human rights
- Indirect involvement through employees, suppliers, distributors or partners in bribery or corruption.

We evaluate the risks before initiating geo-expansion activities and we collaborate with local professionals during our set-up phase.

We also mitigate these risks through our policies and close connection with our managers, our guidelines and activities. Through on-site training, we establish risk management frameworks that include mechanisms and functions for compliance and internal control.

**Non-financial KPIs**

We use non-financial KPIs to manage the reporting of working conditions including, diversity and equality in the workplace, employee attrition rate and talent recruiting.

We also measure and promote the efficiency of our products, including costs, environmental impact, and savings.

**Gender distribution*****(The Danish Financial Statement Act §99b)***

A diverse workforce brings varied experiences, expertise, ideas, and innovation to a company. To maintain such a diversified workforce, we collaborate across Milestone to benefit from knowledge-sharing between culturally diverse groups and always look for the best-suited candidate – regardless of their gender.

Following this principle, the composition of the Board of Directors is reviewed on an annual basis and in 2019, there were no changes to the shareholder-elected board members. Consequently, the composition of the board is the same as in 2018 and it currently has no female shareholder-elected members. By 2021, we aim to have one female member among the shareholder-elected board members.

Apart from the board, in 2019, Milestone's senior management consisted of 21 percent women. Going forward, we will continue to ensure that gender diversity is an integrated part of our talent review, leadership development, and recruitment activities for management positions.

**Expectations for 2020**

Industry analysts expect continued growth in the video surveillance equipment market for 2020, and Milestone expects to further strengthen our global market position.

Revenue growth will be driven by a continued expansion of our competitive portfolio of innovative products, including both Video Management Software and Network Video Recorders, as well as our international business ecosystem of channel partners, camera vendors, technology, and solution partners.

As in 2019, we expect to see continued growth in both invoiced revenue and net revenue. Costs are expected to grow in balance with the top-line growth.

As a consequence of the COVID-19 virus outbreak at the beginning of 2020, forward-looking expectations, especially those that relate to future revenue and operating profit, are subject to risks and uncertainties which may cause the actual development to differ materially from the expectations. As of today, the COVID-19 virus outbreak has not affected our revenue to a degree where we see the need to lower our growth expectations for the coming year. The situation is being evaluated on a continuous basis by the Management.

# Accounting Policies

The company's accounting policies applied in the preparation of the consolidated financial statements and the financial statements of the Parent Company are set out below.

## Basis of preparation

The Annual Report for Milestone Systems A/S for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act. The Annual Report is presented in accordance with the reporting provisions for large Class C enterprises.

## Changes to accounting policies

Changes have been made in the financial statements regarding the recognition and presentation of operating lease contracts.

IFRS 16 has been adopted by applying the simplified approach. No comparative information has been restated as the simplified approach has been applied.

IFRS 16 has a significant impact on the balance sheet. At the beginning of January 2019 the new standard has affected the balance sheet with DKK 110 million as fixed assets and DKK 110 million as lease liabilities, and at the end of December 2019 the balance sheet is affected with DKK 120 million as fixed assets and DKK 122 million as lease liabilities.

The adoption of IFRS 16 has increased cost in the Income Statement by DKK 1.1 million.

IFRS 15 has also been adopted in the financial statements as required by adoption of IFRS 16. No comparative information has been restated as a result of the adoption.

Apart from above, the financial statements have been prepared in accordance with the same accounting policies as last year.

## Reporting currency

The financial statements are presented in Danish kroner (DKK'000).

## Consolidated financial statement

The consolidated financial statement includes the financial statement of Milestone Systems A/S (the Parent Company) and all the companies in which Milestone Systems A/S, at the balance sheet date, directly or indirectly holds

more than 50% of the voting rights or in any other way has a controlling influence (subsidiaries). Milestone Systems A/S and these companies are referred to as the Group.

The consolidated financial statement is based on the financial statement of the Parent Company and the subsidiaries and is prepared by combining items of a uniform nature and eliminating intercompany transactions, shareholdings, balances and unrealized intercompany profit and losses. The consolidated financial statement is based on financial statements prepared by applying the Group accounting policies.

## Foreign currencies

Transactions in foreign currencies are translated during the year at the exchange rates prevailing on transaction date.

Receivables, payables and other items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates prevailing on the balance sheet date.

Realized and unrealized exchange rate adjustments are recognized in financial income and expenses in the income statement.

## Tax on profit for the year, corporation tax and deferred tax

Tax for the year consists of current tax and deferred tax. The tax charge on profit for the year is recognized in the income statement, whereas the tax attributable to equity entries is recognized directly in equity.

Current tax is calculated at the tax rate applicable for the year.

The company is not jointly taxed with its foreign subsidiaries.

Current tax receivables are recognized in the balance sheet if taxes on account have been overpaid whereas current tax liabilities are recognized as short-term liability insofar as they have not been paid.

# Accounting Policies

Deferred tax is recognized in the balance sheet as the tax on all temporary differences and tax loss carried forward. Deferred tax is calculated on the basis of legislation applicable for the financial year at the rate that will apply at the time when it is expected to be realized.

Deferred tax assets are measured at the value at which the asset is expected to be realized.

## Derivative financial instruments and hedging activities

Derivatives are recognized at fair value. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The company designates derivatives as hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

## Income Statement

### Net revenue

Revenues are recognized in the income statement in accordance with IFRS 15. IFRS 15 has no impact in the recognition of revenue in the Income Statement compared to previous years.

Revenue is mainly derived from sales of licenses, service, support and maintenance agreements, sale of hardware products & other revenue such as training.

The sales agreements are divided into individually identifiable performance obligations that are recognized and measured separately at fair value. Where a sale agreement includes multiple performance obligations, the total sales value of the sale agreement is allocated proportionally to the individual performance obligations of the agreement.

Revenues are recognized in the income statement when control over the individual identifiable performance obligations passes to the customer.

Recognized revenue is measured at the fair value of the agreed remuneration, exclusive VAT and charges levied on behalf of third parties. All types of discounts granted are recognized in revenue.

### Sales of goods

Sales of goods comprise of licenses and hardware products and are recognized as revenue when control of the individual identifiable performance obligation in the sales agreement is transferred to the customer, which is according to the sales conditions at the time of delivery.

Revenue is recognized when the client has obtained control of the license and has the ability to use and obtain substantially all the benefits from the license.

### Sales of services

Sales of services comprise of service, support and maintenance agreements & other services such as training etc.

The services typically include a performance obligation that is recognized on a straight-line basis in revenue over the period in which the services are provided.

# Accounting Policies

## Cost of sales

Cost of sales comprise costs incurring in generating the revenue for the year. Such costs include costs for royalty costs to third parties, subcontractors for delivering services, salaries, bonuses, other employee related costs, depreciation and other costs.

## Research and development costs

Research and development costs comprise salaries, other employee related costs, depreciation and amortization, and other costs directly or indirectly attributable to research and development activities. Research and development costs are expensed in the year in which they are incurred when they do not qualify for capitalization.

## Distribution and sales costs

Distribution and sales costs primarily comprise salaries, commissions, bonuses, and other sales employee related costs, travel and meeting expenses, marketing expenses, depreciation and amortization, and indirect costs such as rent and technological infrastructure directly or indirectly attributable to sales and marketing activities.

## Administrative costs

Administrative costs comprise salaries, bonuses and other employee costs and expenses, office costs, depreciation and amortization, and indirect costs such as rent and technological infrastructure directly or indirectly attributable to administrative activities.

## Other operating income

Other operating income comprise items of a secondary nature relative to the core activities of the enterprises.

## Results from investments in subsidiaries

Milestones share of results from subsidiaries are stated in the income statement.

## Financial income and expenses

Financial income and expenses include interest, realized and unrealized currency adjustments.

# Balance Sheet

## Development projects

Costs for development projects include salaries, depreciation and other expenses that are directly or indirectly attributable to the company's development activities.

Clearly defined and identifiable development projects are stated as intangible fixed assets provided that there is sufficient certainty that the capital value of future earnings will cover sales, marketing and administrative costs as well as actual development costs.

Development costs that do not satisfy the criteria for inclusion in the balance sheet are stated as costs in the Income Statement as they are incurred.

Capitalized development projects are valued at cost less accumulated depreciation and amortization.

Capitalized development projects are depreciated linearly from the date of completion over the period in which they are expected to produce financial benefits, but not exceeding five years.

## Intangible and tangible fixed assets

Other plant, operating equipment, fixtures and fittings as well as software purchases are measured at cost less accumulated depreciation and less any accumulated impairment losses. Cost comprises the cost of acquisition and expenses directly related to acquisition and commissioning costs.

Depreciation of a fixed asset commences when it is ready for use.

Depreciation based on cost reduced by any residual value is calculated on a straight-line basis over the expected useful lives of the assets, which are:

Software	3-5 years
Other plant, fixtures and equipment	3-5 years

The residual value is determined at the time of acquisition and is reassessed every year.

Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognized. In case of changes in the residual value, the effect on the depreciation charges is recognized prospectively as a change in accounting estimates.



# Accounting Policies

## Lease contracts

Lease contracts are recognized and measured as tangible fixed assets according to IFRS 16.

IFRS 16 has been adopted by applying the simplified approach. No comparative information has been restated as the simplified approach has been applied.

By adoption of IFRS 16, the Group recognized lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases.

Leases are recognized in the balance sheet at the lower fair value of the asset and the present value of the lease payments.

The lease obligation is recognized in the balance sheet as a liability, and the interest portion of the lease payment is expensed on an ongoing basis in the income statement.

## Financial fixed Assets

Investments in subsidiaries are recognized and measured after the net asset value convention.

The balance sheet includes the proportionate ownership share of the net asset value of the subsidiary. The total net revaluation is transferred upon distribution of profit to "reserve for net revaluation under the equity method".

The reserve is reduced by the dividend distributed to the Parent Company and adjusted for other equity movement in the subsidiaries.

Investments with a negative net assets value are recognized at DKK 0.

Any legal or constructive obligation of the Parent Company to recover the negative balance is recognized as provisions.

Other investments are measured at cost less write downs.

## Impairment of fixed assets

The carrying amounts of fixed assets are reviewed annually to determine whether there is any indication of impairment other than that expressed by amortization and depreciation. If so, the asset is written down to its lower recoverable amount.

The recoverable value of the asset is calculated as the higher of net sales price and value in use. Where it is impossible to set a recoverable amount for an individual asset, assets should be valued as a whole for the smallest group of assets for which a reliable recoverable amount can be determined.

## Receivables

Trade receivables are amounts due from customers for merchandise sold, or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment.

## Prepayments

Prepayments include costs paid relating to subsequent financial years and are measured at cost.

## Equity

### Reserve for net revaluation according to the equity method

The reserve comprises net revaluations of investments in subsidiaries compared to the cost price.

### Reserve for development projects

The reserve for development include recognized development cost. The reserve cannot be used for paying dividends or cover for incurred losses. The reserve is reduced or dissolved by depreciation, or if, the recognized development cost ceases to be part of the company's operations. This is done by transferring directly to distributable reserves in the equity.

### Proposed dividends

Dividend proposed for the year is recognized as a liability once adopted at the annual general meeting (declaration date). Dividends expected to be distributed for the financial year are presented as a separate item under "Equity".

# Accounting Policies

## Liabilities

Other liabilities are recognized at cost at the date of contracting the liability. It is then subsequently stated at amortized cost, which usually corresponds to the nominal value for short-term and non-interest-bearing liabilities.

## Deferred income

Deferred income is recorded as liabilities consisting of payments received relating to revenue in subsequent periods.

## Cash Flow Statement

The cash flow statement shows the Group's cash flows for the year broken down by operating, investing and financing activities, changes for the year in cash and cash equivalents as well as the Group's cash and cash equivalents at the beginning and end of the year.

No cash flow statement has been prepared for the Parent Company as the Parent Company cash flows are included in the Consolidated Cash Flow Statement.

## Cash flows from operating activities

Cash flows from operating activities are calculated as the net profit/loss for the year adjusted for changes in working capital and non-

cash operating items such as depreciation, amortization and impairment losses and provisions. Working capital comprises current assets less short-term liabilities excluding items included in cash and cash equivalents.

## Cash flows from investing activities

Cash flows from investing activities comprise cash flows from acquisitions and disposals of intangible assets, property, plant and equipment as well as fixed asset investments.

## Cash flows from financing activities

Cash flows from financing activities comprise cash flows from the raising and repayment of long-term liabilities as well as payments to and from shareholders.

## Cash and cash equivalents

Cash and cash equivalents comprise "Cash at bank and in hand".

## Financial ratios

Financial ratios are calculated in accordance with the Danish Finance Society's guidelines.

The financial ratios stated under "5-year summary" have been calculated as follows:

Invoiced Revenue	=	Invoiced revenue for the financial year
Gross margin	=	$\frac{\text{Gross margin} \times 100}{\text{Net revenue}}$
EBIT margin	=	$\frac{\text{Operating income before interest and tax} \times 100}{\text{Net revenue}}$
Financial solidity	=	$\frac{\text{Total Assets}}{\text{Shareholder Equity}}$
Return on Equity	=	$\frac{\text{Net income for the year} \times 100}{\text{Average Shareholder Equity}}$

# Income Statement

Parent Company DKK'000			Consolidated DKK'000		
2018	2019		Note	2019	2018
<b>924.872</b>	<b>1.020.187</b>	<b>Net Revenue</b>	1	<b>1.026.494</b>	<b>934.445</b>
-75.187	-58.177	Cost of sales		-59.189	-76.328
<b>849.685</b>	<b>962.010</b>	<b>Gross margin</b>		<b>967.305</b>	<b>858.117</b>
-193.150	-244.452	Research and development costs	3, 4	-236.702	-190.124
-456.719	-543.065	Distribution and sales costs	3, 4	-523.456	-439.455
-51.685	-68.142	Administrative costs	2, 3, 4	-82.699	-63.262
<b>148.131</b>	<b>106.351</b>	<b>Operating profit</b>		<b>124.448</b>	<b>165.276</b>
29.516	0	Other operating income		0	29.516
<b>177.647</b>	<b>106.351</b>	<b>Operating income (EBIT)</b>		<b>124.448</b>	<b>194.792</b>
10.502	9.715	Result from investments in subsidiaries	9	0	0
17.584	10.784	Interest and other financial income	5	9.232	16.428
-1.683	-2.095	Interest and other financial expenses		-3.101	-2.155
<b>204.050</b>	<b>124.755</b>	<b>Profit before corporate tax</b>		<b>130.579</b>	<b>209.065</b>
-33.052	-25.832	Corporate tax	6	-31.656	-38.067
<b>170.998</b>	<b>98.923</b>	<b>Net income</b>		<b>98.923</b>	<b>170.998</b>
		<b>Net income attributable to:</b>			
170.998	98.923	Owners of Milestone Systems A/S		98.923	170.998
<b>170.998</b>	<b>98.923</b>	<b>Net income</b>		<b>98.923</b>	<b>170.998</b>

## Balance Sheet December 31

### Assets

Parent Company DKK'000			Consolidated DKK'000	
2018	2019	Note	2019	2018
147.054	166.377		164.305	143.610
24.324	19.900		17.859	24.324
42.652	45.750		46.443	42.738
<b>214.030</b>	<b>232.027</b>	<b>Intangible fixed assets</b>	<b>228.607</b>	<b>210.672</b>
0	46.912	Land and buldings	112.149	0
17.055	27.514	Other fixtures and fittings, tools and equipment	52.326	35.928
<b>17.055</b>	<b>74.426</b>	<b>Tangible fixed assets</b>	<b>164.475</b>	<b>35.928</b>
27.345	37.404	Investments in subsidiaries	0	0
21.469	21.469	Other investments	21.469	21.469
3.737	3.821	Deposits	8.403	8.033
<b>52.551</b>	<b>62.694</b>	<b>Financial fixed assets</b>	<b>29.872</b>	<b>29.502</b>
<b>283.636</b>	<b>369.147</b>	<b>Fixed assets</b>	<b>422.954</b>	<b>276.102</b>
233.703	253.782	Trade receivables	257.709	239.256
326.183	350.239	Receivables from group enterprises	339.576	303.431
1.990	1.443	Other receivables	5.133	4.677
54.675	36.659	Prepaid company tax	41.254	61.924
0	0	Deferred tax	3.452	3.661
15.838	14.272	Prepayments	18.815	19.037
<b>632.389</b>	<b>656.395</b>	<b>Receivables</b>	<b>665.939</b>	<b>631.986</b>
<b>206.938</b>	<b>299.222</b>	<b>Cash at bank and in hand</b>	<b>346.447</b>	<b>248.602</b>
<b>839.327</b>	<b>955.617</b>	<b>Current assets</b>	<b>1.012.386</b>	<b>880.588</b>
<b>1.122.963</b>	<b>1.324.764</b>	<b>Assets</b>	<b>1.435.340</b>	<b>1.156.690</b>

## Balance Sheet December 31<sup>st</sup> Shareholders Equity and Liabilities

Parent Company DKK'000				Consolidated DKK'000	
2018	2019		Note	2019	2018
		<b>EQUITY</b>			
693	693	Share capital		693	693
8.421	18.631	Reserve for net revaluation under the equity method		0	0
77.527	118.565	Reserve for development projects		0	0
499.912	483.402	Retained earnings		620.598	585.860
0	60.000	Dividend proposed for the year		60.000	0
586.553	681.291	Capital and reserves attributable to owners of Milestone Systems A/S		681.291	586.553
<b>586.553</b>	<b>681.291</b>	<b>Total equity</b>		<b>681.291</b>	<b>586.553</b>
547	322	Investments in sub. with negative equity	9	0	0
39.306	42.029	Deferred tax	10	42.101	39.355
<b>39.853</b>	<b>42.351</b>	<b>Provisions</b>		<b>42.101</b>	<b>39.355</b>
0	40.426	Lease liability	12	94.228	0
<b>0</b>	<b>40.426</b>	<b>Non-current liabilities</b>		<b>94.228</b>	<b>0</b>
0	11.729	Lease liability	12	28.133	0
21.607	22.837	Trade payables		25.423	22.805
4.306	2.966	Payables to group enterprises		0	0
64.964	31.162	Corporation tax		36.041	68.850
95.580	98.693	Other payables		132.287	128.167
310.100	393.309	Deferred income	13	395.836	310.960
<b>496.557</b>	<b>560.696</b>	<b>Current liabilities</b>		<b>617.720</b>	<b>530.782</b>
<b>496.557</b>	<b>601.122</b>	<b>Total liabilities</b>		<b>711.948</b>	<b>530.782</b>
<b>1.122.963</b>	<b>1.324.764</b>	<b>Liabilities and equity</b>		<b>1.435.340</b>	<b>1.156.690</b>
		Mortgages, securities and contingent liabilities		14	
		Related parties		15	
		Cash Flow Statement Notes		16	
		Proposed distribution of profit		17	
		Subsequent events		18	

## Statement of changes in equity

		<b>Consolidated</b>					
		Share capital	Retained earnings	Dividend proposed for the year	Total		
<i>DKK'000</i>							
<b>Equity at January 1, 2018</b>		<b>693</b>	<b>438.053</b>	<b>0</b>	<b>438.746</b>		
Exchange rate adjustment, beginning of the year		0	78	0	78		
Exchange rate adjustment, during the year		0	96	0	96		
Fair value adjustment of hedging instruments, end of the year		0	-29.955	0	-29.955		
Adjustment to deferred tax on hedging instruments, end of the year		0	6.590	0	6.590		
Net income for the year		0	170.998	0	170.998		
<b>Equity at December 31, 2018</b>		<b>693</b>	<b>585.860</b>	<b>0</b>	<b>586.553</b>		
Exchange rate adjustment, beginning of the year	9	0	233	0	233		
Exchange rate adjustment, during the year	9	0	262	0	262		
Fair value adjustment of hedging instruments, end of the year		0	-6.000	0	-6.000		
Adjustment to deferred tax on hedging instruments, end of the year		0	1.320	0	1.320		
Net income for the year		0	38.923	60.000	98.923		
<b>Equity at December 31, 2019</b>		<b>693</b>	<b>620.598</b>	<b>60.000</b>	<b>681.291</b>		
		<b>Parent Company</b>					
		Share capital	Reserve for net revaluation according to the equity method	Reserve for development projects	Retained earnings	Dividend proposed for the year	Total
<i>DKK'000</i>							
<b>Equity at January 1, 2018</b>		<b>693</b>	<b>0</b>	<b>83.822</b>	<b>354.231</b>	<b>0</b>	<b>438.746</b>
Exchange rate adjustment, beginning of the year		0	0	0	78	0	78
Exchange rate adjustment, during the year		0	0	0	96	0	96
Fair value adjustment of hedging instruments, end of the year		0	0	0	-29.955	0	-29.955
Adjustment to deferred tax on hedging instruments, end of the year		0	0	0	6.590	0	6.590
Net income for the year		0	8.421	-6.295	168.872	0	170.998
<b>Equity at December 31, 2018</b>		<b>693</b>	<b>8.421</b>	<b>77.527</b>	<b>499.912</b>	<b>0</b>	<b>586.553</b>
Exchange rate adjustment, beginning of the year	9	0	0	0	233	0	233
Exchange rate adjustment, during the year	9	0	0	0	262	0	262
Fair value adjustment of hedging instruments, end of the year		0	0	0	-6.000	0	-6.000
Adjustment to deferred tax on hedging instruments, end of the year		0	0	0	1.320	0	1.320
Net income for the year		0	10.210	41.038	-12.325	60.000	98.923
<b>Equity at December 31, 2019</b>		<b>693</b>	<b>18.631</b>	<b>118.565</b>	<b>483.402</b>	<b>60.000</b>	<b>681.291</b>

The share capital consists of 692,644 shares of a nominal value of DKK 1. No shares have special rights.

According to the authorization passed by the Annual General Meeting, the Board of Directors may allow the Company to acquire treasury shares up to a total holding of 10% of the nominal share capital. At December 31, 2019, treasury shares amounted to DKK 0 (2018: DKK 0).

# Cash Flow Statement

	Note	Consolidated	
		DKK'000	
		2019	2018
Net income for the year		98.923	170.998
Adjustments	16	137.932	79.220
Change in working capital	16	36.412	-79.102
Cash flows from operating activities before paid financial items and tax		273.267	171.116
Financial income received		9.232	16.428
Financial expenses paid		-3.101	-2.155
Cash flows from operating activities before paid tax		279.398	185.389
Corporate tax paid/received		-39.305	-54.943
<b>Cash flows from operating activities</b>		<b>240.093</b>	<b>130.446</b>
Investment in intangible fixed assets		-87.614	-75.847
Investment in tangible fixed assets excluding operating lease assets		-26.964	-28.449
Sale of property, plant and equipment		-112	-697
Sale of fixed asset investments		0	22.944
<b>Cash flows from investing activities</b>		<b>-114.690</b>	<b>-82.049</b>
Repayments on lease liability		-26.004	0
<b>Cash flows from financing activities</b>		<b>-26.004</b>	<b>0</b>
<b>Change in cash and cash equivalents</b>		<b>99.399</b>	<b>48.397</b>
Cash and cash equivalents at January 1, 2019		248.602	201.326
Currency adjustments		-1.554	-1.121
<b>Cash and cash equivalents at December 31, 2019</b>		<b>346.447</b>	<b>248.602</b>
<i>Cash and cash equivalents are specified as follows:</i>			
Cash at bank and in hand		346.447	248.602
<b>Cash and cash equivalents at December 31, 2019</b>		<b>346.447</b>	<b>248.602</b>

# Notes to the Annual Report

## Note 1 Segment information

The revenue is segmented following invoicing, and on the basis of where the main part of the processes and activities that generated the revenue took place.

Parent Company DKK'000			Consolidated DKK'000	
2018	2019		2019	2018
		<b>Geographical segments</b>		
38.966	32.637	Net revenue Denmark	32.637	38.966
885.906	987.550	Net revenue export from Denmark	987.550	885.906
0	0	Net revenue generated outside Denmark	6.307	9.573
<b>924.872</b>	<b>1.020.187</b>		<b>1.026.494</b>	<b>934.445</b>
		<b>Product segments</b>		
924.872	1.020.187	Surveillance related products	1.026.494	934.445
<b>924.872</b>	<b>1.020.187</b>		<b>1.026.494</b>	<b>934.445</b>

## Note 2 Fees to independent auditors

284	319	Statutory audit fee	319	284
0	0	Other assurance engagements	0	0
38	275	Tax advisory services	739	551
133	181	Other services	386	266
<b>455</b>	<b>775</b>		<b>1.444</b>	<b>1.101</b>

## Note 3 Staff expenses

252.758	304.197	Wages and salaries	487.856	407.622
10.791	13.556	Pensions	23.354	18.240
2.811	3.349	Social contributions	22.064	17.825
20.885	21.102	Other staff expenses	54.531	47.056
-31.011	-31.087	Capitalized development costs	-52.960	-44.827
<b>256.234</b>	<b>311.117</b>		<b>534.845</b>	<b>445.916</b>
<b>318</b>	<b>375</b>	<b>Average number of employees</b>	<b>776</b>	<b>658</b>

### Staff expenses are recognized as follows:

4.171	0	Cost of sales	0	4.171
113.444	148.304	Research and development costs	136.549	107.253
100.860	114.094	Distribution and sales costs	340.640	289.141
37.759	48.719	Administrative costs	57.656	45.351
<b>256.234</b>	<b>311.117</b>		<b>534.845</b>	<b>445.916</b>

### Remuneration to the Executive Management:

-	8.693	Executive Management	8.693	-
<b>-</b>	<b>8.693</b>		<b>8.693</b>	<b>-</b>

Pursuant to section 98b, Section 3 of the financial Statements Act, remuneration to Executive Management and Board of Directors is not disclosed separately in 2018.



# Notes to the Annual Report

Parent Company DKK'000			Consolidated DKK'000	
2018	2019		2019	2018
<b>Note 4 Depreciation and amortization of intangible and tangible fixed assets</b>				
57.067	59.456	Completed development projects	58.085	56.372
8.539	11.379	Other intangible assets	11.594	8.572
0	8.501	Land and buildings	23.990	0
7.914	13.740	Other fixtures and fittings, tools and equipment	22.733	12.715
0	0	Gains and losses in fixed assets	112	697
<b>73.520</b>	<b>93.076</b>		<b>116.514</b>	<b>78.356</b>
<b>Depreciation and amortization of intangible and tangible fixed assets are recognised as follows:</b>				
29	0	Cost of sales	0	29
62.536	70.349	Research and development costs	74.942	62.795
8.653	21.026	Distribution and sales costs	39.872	13.230
2.302	1.701	Administrative costs	1.700	2.302
<b>73.520</b>	<b>93.076</b>		<b>116.514</b>	<b>78.356</b>
<b>Note 5 Interest and other financial income</b>				
3.105	4.672	Interest from Group companies	3.464	1.746
12.958	4.891	Currency adjustments	4.427	12.879
1.521	1.221	Other financial interest and income	1.341	1.803
<b>17.584</b>	<b>10.784</b>		<b>9.232</b>	<b>16.428</b>
<b>Note 6 Tax</b>				
33.012	21.780	Current tax for the year	26.381	37.253
557	8	Adjustment of current tax for prior years	885	872
-7.107	2.724	Change in deferred tax	2.955	-6.741
0	0	Adjustment in deferred tax for prior years	115	93
<b>26.462</b>	<b>24.512</b>		<b>30.336</b>	<b>31.477</b>
<b>Attributable to:</b>				
33.052	25.832	Tax on profit for the year	31.656	38.067
-6.590	-1.320	Tax on changes in equity	-1.320	-6.590
<b>26.462</b>	<b>24.512</b>		<b>30.336</b>	<b>31.477</b>

# Notes to the Annual Report

## Note 7 Intangible fixed assets

Consolidated - DKK'000

	Completed development projects	Development projects in progress	Total development projects	Other intangible assets
Cost at January 1, 2019	562.927	24.324	587.251	64.536
Additions in the year	127	72.188	72.315	15.299
Disposals in the year	0	0	0	0
Transferred to completed	78.653	-78.653	0	0
Cost at December 31, 2019	641.707	17.859	659.566	79.835
Depreciation and impairment at January 1, 2019	-419.317	0	-419.317	-21.798
Depreciation in the year	-58.085	0	-58.085	-11.594
Depreciations on disposals in the year	0	0	0	0
Depreciation and impairment at December 31, 2019	-477.402	0	-477.402	-33.392
<b>Carrying amount at December 31, 2019</b>	<b>164.305</b>	<b>17.859</b>	<b>182.164</b>	<b>46.443</b>

Development projects relate to the development of the existing Milestone open platform software and new functionality added to that platform. The new functionality will be released on an ongoing basis. The development is progressing according to plan using resources allocated by management to the development projects. The new functionality is primarily aimed at the wide range of customers using Milestone software today. The functionality developed is based on input from various stakeholders within the VMS market, internally as well as externally.

Parent Company - DKK'000

	Completed development projects	Development projects in progress	Total development projects	Other intangible assets
Cost at January 1, 2019	568.954	24.324	593.278	64.380
Additions in the year	126	74.229	74.355	14.477
Disposals in the year	0	0	0	0
Transferred to completed	78.653	-78.653	0	0
Cost at December 31, 2019	647.733	19.900	667.633	78.857
Depreciation and impairment at January 1, 2019	-421.900	0	-421.900	-21.728
Depreciation in the year	-59.456	0	-59.456	-11.379
Depreciations on disposals in the year	0	0	0	0
Depreciation and impairment at December 31, 2019	-481.356	0	-481.356	-33.107
<b>Carrying amount at December 31, 2019</b>	<b>166.377</b>	<b>19.900</b>	<b>186.277</b>	<b>45.750</b>

# Notes to the Annual Report

## Note 8 Tangible fixed assets

Consolidated - DKK'000

	Land and buildings	Other fixtures and fittings, tools and equipment	Total
Cost at January 1, 2019	0	78.613	78.613
Currency adjustment	0	561	561
Additions in the year	136.139	39.303	175.442
Disposals in the year	0	-1.382	-1.382
Cost at December 31, 2019	136.139	117.095	253.234
Depreciation and impairment at January 1, 2019	0	-42.685	-42.685
Currency adjustment	0	-261	-261
Depreciation in the year	-23.990	-22.733	-46.723
Depreciations on disposals in the year	0	910	910
Depreciation and impairment at December 31, 2019	-23.990	-64.769	-88.759
<b>Carrying amount at December 31, 2019</b>	<b>112.149</b>	<b>52.326</b>	<b>164.475</b>
<b>Tangible assets include operating leases with a carrying amount totaling</b>	<b>112.149</b>	<b>8.203</b>	<b>120.352</b>

Parent Company - DKK'000

	Land and buildings	Other fixtures and fittings, tools and equipment	Total
Cost at January 1, 2019	0	42.434	42.434
Additions in the year	55.413	24.362	79.775
Disposals in the year	0	-337	-337
Cost at December 31, 2019	55.413	66.459	121.872
Depreciation and impairment at January 1, 2019	0	-25.379	-25.379
Depreciation in the year	-8.501	-13.740	-22.241
Depreciations on disposals in the year	0	174	174
Depreciation and impairment at December 31, 2019	-8.501	-38.945	-47.446
<b>Carrying amount at December 31, 2019</b>	<b>46.912</b>	<b>27.514</b>	<b>74.426</b>
<b>Tangible assets include operating leases with a carrying amount totaling</b>	<b>46.912</b>	<b>5.622</b>	<b>52.534</b>

# Notes to the Annual Report

## Note 9 Financial fixed assets

Parent Company - DKK'000

	Investments in subsidiaries
Cost at January 1, 2019	12.133
Additions in the year	32
Disposals in the year	0
Cost at December 31, 2019	12.165
Revaluations at January 1, 2019	8.421
Currency adjustment	495
Profit for the year	9.715
Reversals for the year of revaluations in previous years	0
Revaluations at December 31, 2019	18.631
<b>Carrying amount at December 31, 2019</b>	<b>30.796</b>
Negative value of investments in subsidiaries recognized as a provision	322
Negative value of investments in subsidiaries set off against receivables from group enterprises	6.286
<b>Investments in Subsidiaries</b>	<b>37.404</b>

Name	Reg.office	Ownership	Share Capital
Milestone Italia S.R.L.	Milan, Italy	100%	EUR 20.000
Milestone Systems Inc.	Portland, USA	100%	USD 100
Milestone Systems UK, Ltd.	London, United Kingdom	100%	GBP 1.000
Milestone Systems France	Paris, France	100%	EUR 10.000
Milestone Systems Pte.	Singapore	100%	SGD 100.100
Milestone Systems SL	Barcelona, Spain	100%	EUR 154.800
Milestone Systems (Australia) PL	Sidney, Australia	100%	AUD 1
Milestone Systems Bulgaria	Sofia, Bulgaria	100%	BGN 25.000
Milestone Sistemas do Brasil	Sao Pãolo, Brasil	100%	BRL 308.618
Milestone India	Bangalore, India	100%	INR 3.030.400
Milestone Systems Sweden AB	Stockholm, Sweden	100%	SEK 25.000
Milestone Systems KK	Tokyo, Japan	100%	JPY 10.000.000
Milestone Systems Germany GmbH	Munich, Germany	100%	EUR 50.000
Milestone Systems Norway	Oslo, Norway	100%	NOK 30.000

## Notes to the Annual Report

Parent Company			Consolidated	
DKK'000			DKK'000	
2018	2019		2019	2018
<b>Note 10 Deferred tax</b>				
46.413	39.306	Deferred tax at 1 January	35.694	40.578
0	0	Other adjustments	0	1.857
-517	4.043	Change in profit and loss	4.275	-151
-6.590	-1.320	Change in equity	-1.320	-6.590
<b>39.306</b>	<b>42.029</b>	<b>Deferred tax at 31 December</b>	<b>38.649</b>	<b>35.694</b>
<b>Deferred tax relates to:</b>				
44.463	49.096	Intangible assets	49.096	44.463
-773	-1.141	Tangible assets	1.472	1.419
-311	12	Current assets	10	-313
-4.073	-5.938	Other obligations	-9.876	-7.637
0	0	Net operating loss	-2.053	-2.238
<b>39.306</b>	<b>42.029</b>		<b>38.649</b>	<b>35.694</b>
<b>Deferred tax recognized in the balance sheet:</b>				
0	0	Deferred tax asset	-3.452	-3.661
39.306	42.029	Deferred tax liability	42.101	39.355
<b>39.306</b>	<b>42.029</b>		<b>38.649</b>	<b>35.694</b>
<b>Note 11 Prepayments</b>				
Prepayments consist of prepaid costs related to licenses, marketing events and other costs.				
<b>Note 12 Lease liability</b>				
0	11.729	Under 1 year	28.133	0
0	40.376	1 year to 5 years	85.530	0
0	50	Above 5 years	8.698	0
<b>0</b>	<b>52.155</b>		<b>122.361</b>	<b>0</b>
<b>Note 13 Deferred income</b>				
183.180	231.499	Deferred income under 1 year	234.026	184.041
126.920	161.810	Deferred income over 1 year	161.810	126.919
<b>310.100</b>	<b>393.309</b>		<b>395.836</b>	<b>310.960</b>

Long-term deferred income consists of deferred revenue from services where the company has received payment as a pre-paid amount.

### Note 14 Mortgages, securities and contingent liabilities

Consolidated and Parent Company

The Company is jointly taxed with other Danish companies in the Canon Group. The Company has several unlimited, and joint liabilities together with the other jointly taxed companies for Danish income tax and withholding taxes.

## Note 15 Related parties

### Related parties

Milestone Systems A/S has one related party with a controlling interest.

The related party with significant influence in the company is Canon Inc. (Japan, Tokyo).

Milestone Systems A/S is a subsidiary of Milestone Group A/S (Denmark, Brøndby). The ultimate parent is Canon Inc. (Japan, Tokyo).

In accordance with the Danish Financial Statements Act paragraph 98c, Milestone Systems A/S will only disclose transactions, which has not occurred at market conditions.

## Note 16 Cash Flow Statement

	Consolidated DKK'000	
	2019	2018
<b>Cash flow statement - adjustments</b>		
Depreciation of intangible and tangible assets	116.514	78.356
Interest and other financial items	-6.131	-14.273
Corporate tax	31.656	38.067
Other	573	435
Fair value of derivatives	-4.680	-23.365
	<b>137.932</b>	<b>79.220</b>
<b>Cash flow statement - change in working capital</b>		
Change in receivables	-55.202	-175.744
Change in suppliers, provisions, etc	91.614	96.642
	<b>36.412</b>	<b>-79.102</b>

## Note 17 Proposed distribution of profit

Parent Company DKK'000			Consolidated DKK'000	
2018	2019		2019	2018
168.872	-12.325	Retained earnings	38.923	170.998
0	60.000	Proposed dividend recognized under equity	60.000	0
8.421	10.210	Reserve for net revaluation under the equity method	0	0
-6.295	41.038	Reserve for development projects	0	0
<b>170.998</b>	<b>98.923</b>		<b>98.923</b>	<b>170.998</b>

## Note 18 Subsequent events

No subsequent events have occurred after the end of the financial year which could affect the company's financial situation.

Our assessment of the COVID-19 virus outbreak at the beginning of 2020 is that this event has not affected the financial-year ending 31 December 2019.

As of today, the COVID-19 virus outbreak has not affected our revenue to a degree where we see the need to lower our growth expectations for the coming year. The situation is being evaluated on a continuous basis by the Management.