Trackunit ApS

Gasværksvej 24, DK-9000 Aalborg

Annual Report for 1 January - 31 December 2019

CVR No 20 75 01 70

The Annual Report was presented and adopted at the Annual General Meeting of the Company on 29/04 2020

Thomas Christiansen
Chairman of the General Meeting

Contents

Management's Statement

The Executive Board and Board of Directors have today considered and adopted the Annual Report of Trackunit ApS for the financial year 1 January - 31 December 2019.

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

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

In our opinion, Management's Review includes a true and fair account of the matters addressed in the Review.

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

Aalborg, 29 April 2020

Executive Board

Jørgen Raguse CEO	Peter Vekslund CFO

Board of Directors

Frank Cohen Chairman	Lars Dybkjær	Gunnar Evensen
Michael Specht Bruun	Steen Lomholt-Thomsen	

Independent Auditor's Report

To the Shareholders of Trackunit ApS

Opinion
In our opinion, the Financial Statements give a true and fair view of the financial position of the Company at 31 December 2019 and of the results of the Company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

We have audited the Financial Statements of Trackunit ApS for the financial year 1 January - 31 December 2019, which comprise income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies ("the 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 Company 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 Financial Statements and has been prepared in accordance with the requirements of the Danish Financial Statements 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 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 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 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 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 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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and 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.

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.

Aalborg, 29 April 2020
PricewaterhouseCoopers
Statsautoriseret Revisionspartnerselskab
CVR No 33 77 12 31

Søren Ørjan Jensen
State Authorised Public Accountant
mne33226

Henrik Berring Rasmussen
State Authorised Public Accountant
mne34157

Company Information

The Company	Trackunit ApS Gasværksvej 24 DK-9000 Aalborg Telephone: + 45 96 73 74 00 Website: www.trackunit.com CVR No: 20 75 01 70 Financial period: 1 January - 31 December Municipality of reg. office: Aalborg
Board of Directors	Frank Cohen, Chairman Lars Dybkjær Gunnar Evensen Michael Specht Bruun Steen Lomholt-Thomsen
Executive Board	Jørgen Raguse Peter Vekslund
Auditors	PricewaterhouseCoopers Statsautoriseret Revisionspartnerselskab Strandvejen 44 DK-2900 Hellerup

Financial Highlights

Seen over a five-year period, the development of the Company is described by the following financial highlights:

	2019 TDKK	2018 TDKK	2017 TDKK	2016 TDKK	2015 TDKK
Key figures					
Profit/loss					
Gross profit/loss	101,925	78,729	59,682	57,301	62,064
Profit/loss before financial income and expenses	1,803	11,189	18,120	3,304	-29,848
Net financials	3,222	2,714	-4,899	-2,044	1,850
Net profit/loss for the year	189	9,622	7,567	-557	-38,582
Balance sheet					
Balance sheet total	208,152	223,878	133,807	155,276	117,786
Equity	78,555	77,999	69,308	77,028	77,748
Investment in property, plant and equipment	14,360	2,341	3,677	-714	-15,370
Number of employees	99	73	62	59	55
Ratios					
Return on assets	0.9%	5.0%	13.5%	2.1%	-25.3%
Solvency ratio	37.7%	34.8%	51.8%	49.6%	66.0%
Return on equity	0.2%	13.1%	10.3%	-0.7%	-77.8%

The ratios have been prepared in accordance with the recommendations and guidelines issued by the Danish Society of Financial Analysts. For definitions, see under accounting policies.

Management's Review

The Group's principal activities

Trackunit is one of the world's leading telematics companies servicing the off-highway construction and adjacent industries. Trackunit develops and provides innovative solutions for the entire value chain, from machine manufacturers, machine dealers, machine landlords, contractors and operators. Trackunit services its customers directly from its headquarters in Denmark and through subsidiaries in Sweden, Norway, France, Holland, Germany, England and the United States.

Developments in activities and financial affairs

2019 was another year of significant progress with more than 120,000 new machines connected to the company's SaaS platform representing a year on year growth of 40%. The Company's SaaS platform now includes over 400,000 devices. An important milestone from 2019 was the launch of the new Trackunit Manager which with its new features improves access to critical machine data through "Machine insights", "Events" and "Machine 360". Another milestone in 2019 was the launch of the new TU600 hardware unit, which supports the newest Bluetooth standards as well as support for the 4G/5G data networks.

2019 has been considered as another year of investment in talent and technology to secure ongoing growth and to position Trackunit as the leading global telematics company servicing the off-highway construction industry. Net 26 employees joined Trackunit in 2019 organically.

On the commercial side Trackunit continued to significantly strengthen its organization within Sales and Marketing with 4 employees. To reinforce Trackunit's innovative leadership, the Software development-, Product management- and Supply chain- organizations were also considerably strengthened with 9 employees.

The financial result for 2019 is considered satisfactory, with 31% year on year growth in Revenue in 2019. Growth was driven by a significant growth year on year in unit sales and a significantly underlying growth in the subscription base.

The 2018 annual report outlook described 2019 as being a year with continued expectations for high growth rates in sales, as well as significant investments in strengthening the organization, which would partially offset the positive impact to the net result from the increase in sales activity. The expectations were a net profit in the range of 0-20DKK mill. Outcome was in the lower end of the range primarily due to one-off costs for M&A (16.5DKK mill). Apart from these items, management considers the described outlook from the 2018 annual report to be in line with the events that have occurred in 2019 as described above.

UN Global compact

In May 2019, Trackunit and its affiliates committed to support the ten universally accepted principles of the United Nations Global Compact with respect to human rights, labor standards, environmental protection and anti-corruption, and to advance those principles within our company.

Management's Review

We are pleased to confirm our continued support for the Global Compact and renew our ongoing commitment to the initiative and its principles. We take this opportunity to confirm our commitment to the UN Sustainable Development Goals.

During the past year, we have made progress on initiatives. We focused our efforts on establishing a healthy, balanced and fair working culture, reviewing our environmental strategy, and on measures to share our values with employees, suppliers and others we are cooperating with.

We formulated our vision for the future that involves the innovative progress of the construction business until the year 2025 which we genuinely believe will have a positive impact on the health of individuals and the pollution of the environment in the long term.

These actions, their results and how they support the UN Sustainable Development Goals are described in detail in the Communication on Progress report, which is available at https://www.unglobalcompact.org/what-is-gc/participants/135880

Significant changes in operations and financial matters

There are no significant changes in operations and financial matters that have affected recognition and measurement of the companys results and status.

Unusual conditions that affect recognition and measurement

There are no unusual factors that have affected recognition and measurement of the company's results and status.

Outlook

Before the COVID-19 outbreak, Management expected an increase in EBITDA for 2020 of around 25% due to higher growth in revenue and gross profit, than in costs.

The above outlook will however be negatively affected by the COVID-19 outbreak and the measures taken by governments in most of the world to mitigate the impacts of the outbreak. Many of the Group's customers are affected by COVID-19 so there is a risk that revenue and earnings will be lower than included in above outlook. See also subsequent events disclosures in note 20.

To prepare for any negative financial impact from COVID-19, certain cost saving initiatives was implemented in March 2020 aiming to reduce operating expenses by approximately 25% across both staff and fixed costs.

Management’s Review

Significant assumptions and uncertainties

There are no material conditions and uncertainties that affect the company's results and balance sheet.

Risk factors

Activities in foreign countries and hereby earnings, exchange rates and interest rates of various currencies affect cash flows and equity. Adjustment of investments in subsidiaries and associates that are independent entities, are recognized directly in equity. Currency risks related thereto are not hedged. For other exchange risks, the company believes that it will not be relevant from an overall risk and cost perspective.

Development activities

The development activities primarily include development of next generation Trackunit products, which includes development of a Bluetooth based tracking device for low value equipment (Trackunit Kin), as well as offering Telematics as a service through our IRIS data platform.

Income Statement 1 January - 31 December

	Note	2019	2018
		TDKK	TDKK
Gross profit/loss		**101,925**	**78,729**
Staff expenses	1	-65,510	-55,443
Profit/loss before depreciation		**36,415**	**23,286**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	2	-17,490	-12,097
Other operating expenses	3	-17,122	0
Profit/loss before financial income and expenses		**1,803**	**11,189**
Income from investments in subsidiaries		4,267	4,350
Financial income	4	3,674	1,681
Financial expenses	5	-4,719	-3,317
Profit/loss before tax		**5,025**	**13,903**
Tax on profit/loss for the year	6	-4,836	-4,281
Net profit/loss for the year		**189**	**9,622**

Balance Sheet 31 December

Assets

	Note	2019	2018
		TDKK	TDKK
Completed development projects		12,401	15,392
Acquired licenses		4,384	0
Goodwill		21,928	26,312
Development projects in progress		6,013	4,674
Intangible assets	7	**44,726**	**46,378**
Land and buildings		6,680	0
Plant and machinery		0	366
Other fixtures and fittings, tools and equipment		5,479	3,635
Property, plant and equipment	8	**12,159**	**4,001**
Investments in subsidiaries	9	20,317	11,541
Deposits	10	1,235	983
Fixed asset investments		**21,552**	**12,524**
Fixed assets		**78,437**	**62,903**
Inventories	11	**1,226**	**1,068**
Trade receivables		17,612	18,844
Receivables from group enterprises		88,329	128,100
Other receivables		7,698	7,303
Prepayments	12	3,531	4,040
Receivables		**117,170**	**158,287**
Cash at bank and in hand		**11,319**	**1,620**
Currents assets		**129,715**	**160,975**
Assets		**208,152**	**223,878**

Balance Sheet 31 December

Liabilities and equity

	Note	2019	2018
		TDKK	TDKK
Share capital		500	500
Reserve for net revaluation under the equity method		1,898	0
Reserve for development costs		12,926	12,656
Retained earnings		63,231	64,843
Equity	13	**78,555**	**77,999**
Provision for deferred tax	15	4,323	4,101
Provisions relating to investments in group enterprises		1,072	4,091
Provisions		**5,395**	**8,192**
Credit institutions		25,912	27,672
Lease obligations		6,018	0
Other payables		2,394	0
Deferred income	18	20,126	7,490
Long-term debt	16	**54,450**	**35,162**
Credit institutions	16	3,076	24,082
Lease obligations	16	3,290	0
Trade payables		18,776	14,386
Payables to group enterprises		16,103	45,773
Corporation tax payables to group enterprises		4,614	4,305
Other payables	16,17	11,926	10,724
Deferred income	16,18	11,967	3,255
Short-term debt		**69,752**	**102,525**
Debt		**124,202**	**137,687**
Liabilities and equity		**208,152**	**223,878**
Subsequent events	20		
Distribution of profit	14		
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Statement of Changes in Equity

	Share capital	Reserve for net revaluation under the equity method	Reserve for development costs	Retained earnings	Total
	TDKK	TDKK	TDKK	TDKK	TDKK
Equity at 1 January	500	0	12,656	64,843	77,999
Exchange adjustments relating to foreign entities	0	366	0	0	366
Other equity movements	0	0	0	1	1
Development costs for the year	0	0	3,141	-3,141	0
Amortisation for the year	0	0	-2,871	2,871	0
Net profit/loss for the year	0	1,532	0	-1,343	189
Equity at 31 December	**500**	**1,898**	**12,926**	**63,231**	**78,555**

Notes to the Financial Statements

		2019	2018
		TDKK	TDKK
1	**Staff expenses**		
	Wages and salaries	57,547	49,223
	Pensions	5,201	3,809
	Other social security expenses	735	415
	Other staff expenses	2,027	1,996
		65,510	**55,443**
	Including remuneration to the Executive Board and Board of Directors of:		
	Executive Board	3,120	2,710
	Supervisory Board	235	185
		3,355	**2,895**
	Average number of employees	**99**	**73**

		2019	2018
2	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	11,724	9,326
	Depreciation of property, plant and equipment	5,766	2,771
		17,490	**12,097**

		2019	2018
3	**Other operating expenses**		
	M&A activities	16,549	0
	Other expenses	573	0
		17,122	**0**

		2019	2018
4	**Financial income**		
	Interest received from group enterprises	3,555	0
	Other financial income	119	1,681
		3,674	**1,681**

Notes to the Financial Statements

		2019	2018
		TDKK	TDKK
5	**Financial expenses**		
	Interest paid to group enterprises	575	0
	Other financial expenses	2,599	1,745
	Exchange adjustments, expenses	1,545	1,572
		4,719	**3,317**

6	**Tax on profit/loss for the year**		
	Current tax for the year	4,614	4,305
	Deferred tax for the year	222	-24
		4,836	**4,281**

7 Intangible assets

	Completed development projects	Acquired licenses	Goodwill	Development projects in progress
	TDKK	TDKK	TDKK	TDKK
Cost at 1 January	26,682	0	43,856	4,674
Additions for the year	0	3,013	0	6,666
Disposals for the year	-776	-2,160	0	0
Transfers for the year	2,001	5,715	0	-5,327
Cost at 31 December	27,907	6,568	43,856	6,013
Impairment losses and amortisation at 1 January	11,290	0	17,544	0
Amortisation for the year	5,403	1,937	4,384	0
Reversal of amortisation of disposals for the year	-776	-2,217	0	0
Transfers for the year	-411	2,464	0	0
Impairment losses and amortisation at 31 December	15,506	2,184	21,928	0
Carrying amount at 31 December	**12,401**	**4,384**	**21,928**	**6,013**

Completed development projects relate to development of products and services that are ready for sale.

Notes to the Financial Statements

8 Property, plant and equipment

	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment
	TDKK	TDKK	TDKK
Cost at 1 January	0	2,511	7,065
Additions for the year	8,775	0	5,595
Disposals for the year	0	0	-413
Transfers for the year	0	-2,511	122
Cost at 31 December	8,775	0	12,369
Impairment losses and depreciation at 1 January	0	2,145	3,430
Depreciation for the year	2,095	0	3,671
Reversal of impairment and depreciation of sold assets	0	0	-303
Transfers for the year	0	-2,145	92
Impairment losses and depreciation at 31 December	2,095	0	6,890
Carrying amount at 31 December	**6,680**	**0**	**5,479**

9 Investments in subsidiaries

	2019	2018
	TDKK	TDKK
Cost at 1 January	2,082	2,082
Disposals for the year	-19	0
Cost at 31 December	2,063	2,082

9 Investments in subsidiaries (continued)

	2019	2018
	TDKK	TDKK
Value adjustments at 1 January	-2,754	-6,311
Disposals for the year	1,370	0
Exchange adjustment	366	-793
Net profit/loss for the year	2,916	4,350
Value adjustments at 31 December	1,898	-2,754
Equity investments with negative net asset value amortised over receivables	15,284	8,122
Equity investments with negative net asset value transferred to provisions	1,072	4,091
Carrying amount at 31 December	**20,317**	**11,541**

Notes to the Financial Statements

9 Investments in subsidiaries (continued)

Investments in subsidiaries are specified as follows:

Name	Place of registered office	Votes and ownership
Trackunit GmbH	Germany	100%
Trackunit AS	Norway	100%
Tackunit AB	Sweden	100%
Trackunit SAS	France	100%
Trackunit Ltd	The United Kingdom	100%
Fern Capital Ltd	The United Kingdom	100%
Trackunit Telematics Ltd	The United Kingdom	100%
Trackunit America ApS	Denmark	100%
Trackunit Inc	USA	100%
Trackunit BV	Holland	100%

10 Other fixed asset investments

	Deposits
	TDKK
Cost at 1 January	983
Additions for the year	429
Disposals for the year	-177
Cost at 31 December	1,235
Carrying amount at 31 December	**1,235**

11 Inventories

	2019	2018
	TDKK	TDKK
Raw materials and consumables	237	162
Finished goods and goods for resale	989	906
	1,226	**1,068**

Notes to the Financial Statements

12 Prepayments

Prepayments amounts to TDKK 3,531 for 2019 (2018: TDKK 4,040) and consist of prepaid expenses concerning rent, insurance premiums, subscriptions and interest as well.

13 Equity

The share capital consists of 500,000 shares of a nominal value of TDKK 1. No shares carry any special rights.

14 Distribution of profit

	2019	2018
	TDKK	TDKK
Reserve for net revaluation under the equity method	1,532	0
Retained earnings	-1,343	9,622
	189	**9,622**

15 Provision for deferred tax

	2019	2018
Provision for deferred tax at 1 January	4,101	4,126
Amounts recognised in the income statement for the year	222	-24
Provision for deferred tax at 31 December	**4,323**	**4,101**

16 Long-term debt

Payments due within 1 year are recognised in short-term debt. Other debt is recognised in long-term debt.

The debt falls due for payment as specified below:

Credit institutions

	2019	2018
Between 1 and 5 years	25,912	27,672
Long-term part	25,912	27,672
Other short-term debt to credit institutions	3,076	24,082
	28,988	**51,754**

Notes to the Financial Statements

16 Long-term debt (continued)

	2019 TDKK	2018 TDKK
Lease obligations		
Between 1 and 5 years	6,018	0
Long-term part	6,018	0
Within 1 year	3,290	0
	9,308	**0**
Other payables		
Between 1 and 5 years	2,394	0
Long-term part	2,394	0
Other short-term payables	11,926	10,724
	14,320	**10,724**
Deferred income		
Between 1 and 5 years	20,126	7,490
Long-term part	20,126	7,490
Within 1 year	0	0
Other deferred income	11,967	3,255
	32,093	**10,745**

17 Derivative financial instruments

Derivative financial instruments contracts in the form of forward exchange contracts between GBP and DKK have been concluded. At the balance sheet date, the fair value of derivative financial instruments amounts to:

	2019 TDKK	2018 TDKK
Liabilities	0	211

Notes to the Financial Statements

18 Deferred income

Deffered income consists of payments received in respect of income subsequent years. The total deferred income amounts to TDKK 32,093 for 2019 (2018: TDKK 10,745)

19 Contingent assets, liabilities and other financial obligations

	2019	2018
	TDKK	TDKK
Adoption of IFRS 16 with effect from 1 January 2019 means that there are no contingent liabilities regarding leasing at 31 Decenmber 2019.		
Rental and lease obligations		
Lease obligations under operating leases. Total future lease payments:		
Within 1 year	0	2,595
Between 1 and 5 years	0	6,215
	0	**8,810**

Other contingent liabilities

The Danish group companies are jointly and severally liable for tax on the Danish jointly taxed incomes etc of the Danish Group. The total amount of corporation tax payable is disclosed in the Annual Report of M-Tec Holding Danmark ApS, which is the administration company of the joint taxation purposes. Moreover, the Danish group companies are jointly and severally liable for Danish withholding taxes by way of dividend tax, tax on royalty payments and tax on unearned income. Any subsequent adjustments of corporation taxes and withholding taxes may increase the Company's liability.

Willingness has been expressed to support Trackunit America ApS

Notes to the Financial Statements

20 Subsequent events

The implications of COVID-19 with many governments across the world deciding to ”close down their countries” will have a great impact on the global economy. Management considers the implications of COVID-19 a subsequent event occurred after the balance sheet date (31 December 2019), which is therefore a non-adjusting event to the Company.

In consequence, the assessments of impairment indications are based on the future cash flows expected by Management at 31 December 2019, which may differ from the cash flows expected by Management at the time of adoption of the Annual Report, see comments in outlook for the future in Management’s Review.

At this time, it is not possible to calculate the size of the negative COVID-19 impact, see comments in outlook for the future in Management’s Review.

21 Related parties

	Basis
Controlling interest	
M-Tec Danmark ApS	Amaliegade 49, 1. sal, DK-1256 København K

Transactions

The Company has chosen only to disclose transactions which have not been made on an arm’s length basis in accordance with section 98(c)(7) of the Danish Financial Statements Act.

Consolidated Financial Statements

The Company is included in the Group Financial Statement for the Parent Company.

Name	Place of registered office
M-Tec Holding Danmark ApS	Amaliegade 49, 1. sal, DK-1256 København K

Notes to the Financial Statements

22 Accounting Policies

The Annual Report of Trackunit ApS for 2019 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to medium-sized enterprises of reporting class C.

The Financial Statements for 2019 are presented in TDKK.

Changes in accounting policies

In the financial year, the Company has decided to adopt IFRS 16, which results in leasing agreements being recognized in the balance sheet. Therefor a lease asset and a lease debt arises.

The Company has chosen to rely on IFRS 16 Leases from 1 January 2019. The comparatives for the 2018 reporting period have not be restated, as permitted in IFRS 16. On adoption of IFRS 16 the Company recognised lease liabilities in relation to leases which had previously been classified as “Operating leases” under IAS 17.

On 1 January 2019, leasing assets and leasing liability were recognized for TDKK 12,607 in accordance with the adoption of IFRS 16.

The effect of this change in accounting policies is as follows:

- There are 31 December 2019 capitaziled lease assets valued at DKK 9,171k.

- There is 31 December 2019, recognised a lease debt valued at DKK 9,309k.

- In the financial year, DKK 3,383k was expensed reagarding depreciation of the lease agreements.

- In the financial year, DKK 476k was expensed regarding interest on the lease agreements.

Apart from the above, the accounting policies used in the preparation of the financial statements are consistent with those of last year.

Consolidated financial statements

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of M-Tec Holding Danmark ApS, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86(4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of M-Tec Holding Danmark ApS, the Company has not prepared a cash flow statement.

Notes to the Financial Statements

22 Accounting Policies (continued)

Recognition and measurement

Revenues are recognised in the income statement as earned. Furthermore, value adjustments of financial assets and liabilities measured at fair value or amortised cost are recognised. Moreover, all expenses incurred to achieve the earnings for the year are recognised in the income statement, including depreciation, amortisation, impairment losses and provisions as well as reversals due to changed accounting estimates of amounts that have previously been recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits attributable to the asset will flow to the Company, and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow out of the Company, and the value of the liability can be measured reliably.

Assets and liabilities are initially measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

Leases as lessor

Leases as lessor after 1 January 2019

The lessee is required to recognise all leases as a lease liability and a lease asset in the balance sheet with two exceptions: short-term leases (less than 12 months) and leases relating to low-value assets. It must furthermore be considered whether the agreement is a lease or a service arrangement.

The company leases various vehicles, offices and other equipment. From 1 January 2019, leases are recognized as a right-of-use asset and a corresponding liability at the date the leased asset is available for use by the group. In general, all lease contracts are recognized as a lease liability and a lease asset in the balance sheet with two exceptions: short-term leases (less than 12 months) and leases relating to low-value assets (< USD 5.000).

Cars
Lease contracts could be separated between a leasing contract and a service arrangement. The group has decided not to separate lease and non-lease components and instead recognize each car as one contract according to IFRS 16.15.
Assets and liabilities arising from a lease are initially measured on a present value basis. To find the present value of a lease contract several factors has to be determined. Leasing period and fixed payments appears in the lease contract which means only interest rate has to be determined. Here the groups incremental borrowing rate to obtain an asset of similar value is used. In accordance with the Nordea group facility the interest rate for cars is 3%.
Variable lease payments as extra miles beyond the lease contract, damages, bridge tolls etc. is not measures as a lease liability and a lease asset in the balance sheet. Instead these costs are recognized in

Notes to the Financial Statements

22 Accounting Policies (continued)

the profit and loss when they occur.

Offices
Assets and liabilities arising from a lease are initially measured on a present value basis. To find the present value of a lease contract several factors has to be determined. Fixed payments appear in the lease contract. The leasing period for all offices is set the same date as the HQ office expires even though different terms of condition may occur. To find the groups incremental borrowing rate to obtain an asset of similar value, the interest rate is set to 3% for Offices in accordance with the group facility with Nordea.

Other equipment
Assets and liabilities arising from a lease are initially measured on a present value basis. To find the present value of a lease contract several factors has to be determined. Leasing period and fixed payments appears in the lease contract which means only interest rate has to be determined. Here the groups incremental borrowing rate to obtain an asset of similar value is used. In accordance with the Nordea group facility the interest rate for cars is 3%.

Translation policies

Transactions in foreign currencies are translated at the exchange rates at the dates of transaction. Gains and losses arising due to differences between the transaction date rates and the rates at the dates of payment are recognised in financial income and expenses in the income statement.

Receivables, payables and other monetary items in foreign currencies that have not been settled at the balance sheet date are translated at the exchange rates at the balance sheet date. Any differences between the exchange rates at the balance sheet date and the transaction date rates are recognised in financial income and expenses in the income statement; however, see the section on hedge accounting.

Income statements of foreign subsidiaries that are separate legal entities are translated at transaction date rates or approximated average exchange rates. Balance sheet items are translated at the exchange rates at the balance sheet date. Exchange adjustments arising on the translation of the opening equity and exchange adjustments arising from the translation of the income statements at the exchange rates at the balance sheet date are recognised directly in equity.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently remeasured at their fair values. Positive and negative fair values of derivative financial instruments are classified as ”Other receivables” and ”Other payables”, respectively.

Changes in the fair values of derivative financial instruments are recognised in the income statement

Notes to the Financial Statements

22 Accounting Policies (continued)

unless the derivative financial instrument is designated and qualify as hedge accounting.

Income Statement

Revenue

Revenue from the sale of goods is recognised when the risks and rewards relating to the goods sold have been transferred to the purchaser, the revenue can be measured reliably and it is probable that the economic benefits relating to the sale will flow to the Company.

Revenue is measured at the consideration received and is recognised exclusive of VAT and net of discounts relating to sales.

Expenses for raw materials and consumables

Expenses for raw materials and consumables comprise the raw materials and consumables consumed to achieve revenue for the year.

Other external expenses

Other external expenses comprise expenses for premises, sales and distribution as well as office expenses, etc.

Gross profit/loss

With reference to section 32 of the Danish Financial Statements Act, gross profit/loss is calculated as a summary of revenue, other operating income, expenses for raw materials and consumables and other external expenses.

Staff expenses

Staff expenses comprise wages and salaries as well as payroll expenses.

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Other operating income and expenses

Other operating income and other operating expenses comprise items of a secondary nature to the main activities of the Company, including gains and losses on the sale of intangible assets and property, plant and equipment.

Notes to the Financial Statements

22 Accounting Policies (continued)

Income from investments in subsidiaries

The item “Income from investments in subsidiaries” in the income statement includes the proportionate share of the profit for the year.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year.

Tax on profit/loss for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.

The Company is jointly taxed with wholly owned Danish and foreign subsidiaries. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Balance Sheet

Intangible assets

Development projects, patents and licences

Costs of development projects comprise salaries, amortisation and other expenses directly or indirectly attributable to the Company’s development activities.

Development projects that are clearly defined and identifiable and in respect of which technical feasibility, sufficient resources and a potential future market or development opportunity in the enterprise can be demonstrated, and where it is the intention to manufacture, market or use the project, are recognised as intangible assets. This applies if sufficient certainty exists that the value in use of future earnings can cover cost of sales, distribution and administrative expenses involved as well as the development costs.

Development projects that do not meet the criteria for recognition in the balance sheet are recognised as expenses in the income statement as incurred.

Capitalised development costs are measured at cost less accumulated amortisation and impairment losses or at a lower recoverable amount. An amount corresponding to the recognised development costs is allocated to the equity item “Reserve for development costs”. The reserve comprises only development costs recognised in financial years beginning on or after 1 January 2016. The reserve is reduced by amortisation of and impairment losses on the development projects on a continuing basis.

Notes to the Financial Statements

22 Accounting Policies (continued)

As of the date of completion, capitalised development costs are amortised on a straight-line basis over the period of the expected economic benefit from the development work. The amortisation period is 3-5 years.

Licences are measured at cost less accumulated amortisation and less any accumulated impairment losses or at a lower value in use.

Software licences are amortised over the period of the agreement, which is 3-5 years.

Goodwill

Goodwill is amortised on a straight-line basis over the estimated useful life of 10 years. determined on the basis of Management's experience with the individual business areas.

Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and less any accumulated impairment losses.

Cost comprises the cost of acquisition and expenses directly related to the acquisition up until the time when the asset 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:

Other buildings	4	years
Plant and machinery	3-7	years
Other fixtures and fittings, tools and equipment	3-5	years

Depreciation period and residual value are reassessed annually.

Assets with a usefull life less than 1 year are expensed in the year of acquisition.

Impairment of fixed assets

The carrying amounts of intangible assets and property, plant and equipment are reviewed on an annual basis to determine whether there is any indication of impairment other than that expressed by amortisation and depreciation.

If so, the asset is written down to its lower recoverable amount.

Notes to the Financial Statements

22 Accounting Policies (continued)

Investments in subsidiaries

Investments in subsidiaries are recognised and measured under the equity method.

The item“Investments in subsidiaries” in the balance sheet include the proportionate ownership share of the net asset value of the enterprises calculated on the basis of the fair values of identifiable net assets at the time of acquisition with deduction or addition of unrealised intercompany profits or losses and with addition of the remaining value of any increases in value and goodwill calculated at the time of acquisition of the enterprises.

The total net revaluation of investments in subsidiaries is transferred upon distribution of profit to “Reserve for net revaluation under the equity method“ under equity. The reserve is reduced by dividend distributed to the Parent Company and adjusted for other equity movements in the subsidiaries.

Subsidiaries with a negative net asset value are recognised at DKK 0. Any legal or constructive obligation of the Parent Company to cover the negative balance of the enterprise is recognised in provisions.

Other fixed asset investments

Other fixed asset investments consist of deposit.

Inventories

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

The net realisable value of inventories is calculated at the amount expected to be generated by sale of the inventories in the process of normal operations with deduction of selling expenses. The net realisable value is determined allowing for marketability, obsolescence and development in expected selling price.

The cost of goods for resale, raw materials and consumables equals landed cost.

The cost of finished goods and work in progress comprises the cost of raw materials, consumables and direct labour with addition of indirect production costs. Indirect production costs comprise the cost of indirect materials and labour as well as maintenance and depreciation of the machinery, factory buildings and equipment used in the manufacturing process as well as costs of factory administration and management.

Receivables

Receivables are recognised in the balance sheet at amortised cost, which substantially corresponds to nominal value. Provisions for estimated bad debts are made.

Notes to the Financial Statements

22 Accounting Policies (continued)

Prepayments

Prepayments comprise prepaid expenses concerning rent, insurance premiums, subscriptions and interest.

Equity

Dividend

Dividend distribution proposed by Management for the year is disclosed as a separate equity item.

Deferred tax assets and liabilities

Deferred income tax is measured using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes on the basis of the intended use of the asset and settlement of the liability, respectively.

Deferred tax assets are measured at the value at which the asset is expected to be realised, either by elimination in tax on future earnings or by set-off against deferred tax liabilities within the same legal tax entity.

Deferred tax is measured on the basis of the tax rules and tax rates that will be effective under the legislation at the balance sheet date when the deferred tax is expected to crystallise as current tax. Any changes in deferred tax due to changes to tax rates are recognised in the income statement or in equity if the deferred tax relates to items recognised in equity.

Current tax receivables and liabilities

Current tax liabilities and receivables are recognised in the balance sheet as the expected taxable income for the year adjusted for tax on taxable incomes for prior years and tax paid on account. Extra payments and repayment under the on-account taxation scheme are recognised in the income statement in financial income and expenses.

Financial debts

Loans, such as loans from credit institutions, are recognised initially at the proceeds received net of transaction expenses incurred. Subsequently, the loans are measured at amortised cost; the difference between the proceeds and the nominal value is recognised as an interest expense in the income statement over the loan period.

Mortgage loans are measured at amortised cost, which for cash loans corresponds to the remaining loan. Amortised cost of debenture loans corresponds to the remaining loan calculated as the underlying cash value of the loan at the date of raising the loan adjusted for depreciation of the price adjustment of the

Notes to the Financial Statements

22 Accounting Policies (continued)

loan made over the term of the loan at the date of raising the loan.

Other debts are measured at amortised cost, substantially corresponding to nominal value.

Deferred income

Deferred income comprises payments received in respect of income in subsequent years.

Financial Highlights

Explanation of financial ratios

Return on assets	$\frac{\text{Profit before financials x 100}}{\text{Total assets}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$
Return on equity	$\frac{\text{Net profit for the year x 100}}{\text{Average equity}}$