Frontmatec Holding I ApS

Platinvej 8
6000 Kolding
Central Business Registration No.: 37857769

Annual report 2019

The Annual General Meeting adopted the annual report on

Chairman of the General Meeting

Thomas Stenager

Contents

Company Details

Company

Frontmatec Holding I ApS
Platinvej 8
6000 Kolding

Central Business Registration No: 37857769
www.frontmatec.com

Board of Directors

Christian Gymos Schmidt-Jacobsen, Chairman
Jesper Frydensberg Rasmussen
Peter Nyegaard

Executive Board

Christoffer Arthur Müller, CEO

Company Auditors

Deloitte Statsautoriseret Revisionspartnerselskab
City Tower
Værkmestergade 2
DK-8000 Aarhus C

Statement by Management on the Annual Report

The Board of Directors and the Executive Board have today considered and approved the annual report of Frontmatec Holding I ApS for the financial year 01.01.2019 – 31.12.2019.

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

In our opinion, the consolidated financial statements and the parent financial statements give a true and fair view of the Group's and the Parent's financial position at 31.12.2019 and of the results of their operations and cash flows for the financial year 01.01.2019 – 31.12.2019.

In our opinion, the management commentary contains a fair review of the development of the Group's and the Parent's business and financial matters, the results for the year and of the Parent's financial position and the financial position as a whole of the entities included in the consolidated financial statements, together with a description of the principal risks and uncertainties that the Group and the Parent face.

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

Kolding, 28 August 2020

Executive Board

Christoffer Arthur Müller
Chief Executive Officer

Board of Directors

Christian Gymos Schimdt-Jacobsen
Chairman

Jesper Frydensberg Rasmussen

Peter Nyegaard

Independent Auditor's Report

To the shareholders of Frontmatec Holding I ApS

Opinion

We have audited the consolidated financial statements and the parent financial statements of Frontmatec Holding I ApS for the financial year 01.01.2019 - 31.12.2019, which comprise the income statement, statement of comprehensive income, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies, for the Group as well as the Parent. The consolidated financial statements and the parent financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

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

Basis for opinion

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

Statement on the management commentary

Management is responsible for the management commentary.

Our opinion on the consolidated financial statements and the parent financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements and the parent financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the consolidated financial statements and the parent financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

Independent Auditor's Report

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

Management's responsibilities for the consolidated financial statements and the parent financial statements

Management is responsible for the preparation of consolidated financial statements and parent financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements and parent financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements and the parent 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 consolidated financial statements and the parent 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 consolidated financial statements and the parent 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

Independent Auditor's Report

- 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'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 consolidated financial statements and the parent 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'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 consolidated financial statements and the parent 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 Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements and the parent financial statements, including the disclosures in the notes, and whether the consolidated financial statements and the parent 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.

Aarhus, 28 August 2020

Deloitte
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Bill Haudal Pedersen	Søren Alsen Lauridsen
State-Authorised	State-Authorised
Public Accountant	Public Accountant
MNE no.: mne30131	MNE no.: mne40040

Management Review

	2019 DKK'000	2018 DKK'000	2017 DKK'000
Group financial highlights			
Key figures			
Revenue	1,662,323	1,418,685	1,341,573
Gross profit	393,656	397,527	351,637
Operating profit before depreciation amortization and special items (EBITDA)	171,849	207,176	182,940
Pro forma EBITDA	201,024	226,026	215,888
Equity	614,584	1,021,033	979,199
Balance sheet total	2,731,308	2,695,168	2,374,320
Change in cash and cash equivalents for the year	602	(28,824)	604,123
Number of employees	1,263	1,230	1,000

	2019	2018	2017
Ratios			
Gross margin (%)	23.7%	33.7%	26.2%
Pro forma EBITDA margin (%)	11.8%	15.8%	15.4%
EBITDA margin (%)	10.3%	14.6%	13.6%
Return on assets (%)	-1.2%	-0.2%	1.0%
Equity ratio (%)	22.5%	37.9%	41.2%

The ratios have been prepared in accordance with the definitions on the following page.

Management Review

Explanation of ratios:

Ratios		**Calculation formula**
Gross margin (%)	=	Gross profit x 100 / Revenue
Pro forma EBITDA margin (%)	=	Pro forma EBITDA x 100 / Pro forma revenue
EBITDA margin (%)	=	EBITDA x 100 / Revenue
Return on assets (%)	=	Operating profit x 100 / Average Assets
Equity ratio (%)	=	Equity end of year x 100 / Total equity and liabilities at year end

Frontmatec's Business Review

About the Frontmatec Group

In the management review, reference is made to pro forma numbers. These are described in the section on the alternative performance measures on page 17.

Frontmatec Group is a global leading provider of advanced food processing equipment. Frontmatec develops world-class customized solutions for automation in the food industry and other hygiene sensitive industries. The Group is especially renowned for the high-quality systems for the entire value chain of the meat industry – from carcass grading to slaughter lines, cutting and deboning lines, hygiene systems and control systems to logistics and packaging.

The Group has pro forma revenue in 2019 of DKK 1,707 million (IFRS revenue: DKK 1,662 million) and pro forma normalized EBITDA of DKK 201 million (IFRS EBITDA: DKK 172 million).

Frontmatec Group is headquartered in Kolding, Denmark and has production facilities in Denmark, Canada, China, UK, Romania, and Germany. Moreover, the Group has a global sales footprint with own sales offices in Denmark, Germany, Poland, France, Spain, Netherlands, China, Canada, USA and Russia.

The strategy of the Group is to leverage its strong market position and full-line product offering to outperform the underlying market growth while at the same time executing on operational improvement initiatives in order to continue to enhance profitability significantly.

Achievements in 2019

The focus in the financial year 2019 was to continue growth on key markets and to integrate the acquired entities. Key achievements in 2019 include:

- The Group had extensive focus on sales initiatives using the strong platform from the acquired entities. Frontmatec had a record-high pro forma revenue of DKK 1,707 million in 2019 (IFRS revenue 2019: DKK 1,662 million) and with a 20% increase compared to 2018
- Two strategic bolt-on acquisitions were completed in the beginning of 2019 i.e. Aira and Intecal. The acquisition in Aira will provide Frontmatec with unique competencies in free arm robotic solutions and support the increasing level of automation in the global meat industry. The acquisition in Intecal will strengthen the Group's position in Spain, which is the largest producer of pork meat in Europe
- During 2019 Frontmatec continued to invest in new product development and introduced a number of advanced automation solutions to the industry. This is expected to support growth in coming years
- The Group launched the Full Potential Plan, which is a business plan to support strategic initiatives. The focus in the Full Potential Plan is standardization and modularization, project execution, sales growth and further optimization of the manufacturing footprint

Frontmatec's Business Review

Two acquisitions were completed in 2019:

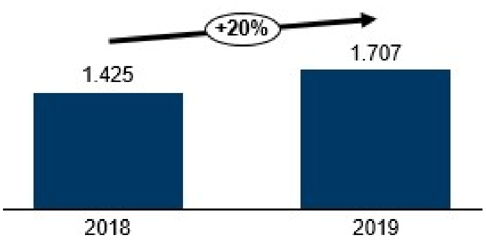
- In January 2019, Frontmatec Group acquired 40% of the shares in the Spanish based company Aira – Assessorament Industrial Robòtica, S.L. The partnership will provide Frontmatec with unique competencies in free arm robotic solutions, complementing the already strong automation portfolio. The partnership will focus on supporting the increasing level of automation in the global meat industry.

- In March 2019, Frontmatec Group acquired 100% of the shares in the Spanish based company Intecal – Industrial Técnico Alimentaria, S.A. The leading Spanish equipment distributor will significantly strengthen the Group's position on this vital market. The global demand for red meat is increasing along with a growing global population. Spain has been especially successful in meeting this demand and increased its production to become the largest producer of pork meat in Europe.

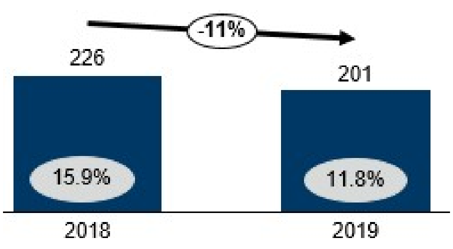
In October 2019, the Frontmatec Group completed a refinancing of existing senior and junior debt facilities through the issuance of a EUR 175m five year Nordic bond (to be listed on OMXNasdaq in 2020) and an EUR 47m SSRCF from existing senior banks. Part of the refinancing was used to repay bank debt in Frontmatec Holding II ApS with DKK 293 million. The funds were distributed from Frontmatec Group ApS through Frontmatec Holding I ApS to Frontmatec Holding II ApS as dividend of DKK 293 million.

Frontmatec Group financial development:

Development in pro forma revenue



Development in pro forma EBITDA



Frontmatec's Business Review

Frontmatec Group had pro forma revenue of DKK 1,707 million in 2019 (IFRS revenue 2019: DKK 1,662 million), which represents an increase of 20% from 2018 (proforma revenue DKK 1,425 million, IFRS revenue: DKK 1,419 million). The Group had increased revenue on most markets and from both project sales and after sales. The record-high revenue was an important milestone in Frontmatec's ambition to remain the global preferred supplier of advanced food processing equipment.

Pro forma EBITDA decreased by 11% from DKK 226 million in 2018 to DKK 201 million in 2019. The decline in Group pro forma EBITDA was the result of relocation of the production site in Kolding, which resulted in cost overruns on a number of projects and indirect loss of revenue, due to production disruption. The situation has stabilized in the beginning of 2020.

Financial statements

Frontmatec Group had revenue of DKK 1,662 million in 2019, which was DKK 244 million higher than 2018. Operating profit before depreciation, amortization and special non-recurring items was DKK 172 million and DKK 35 million lower than 2018. Special non-recurring items of DKK 60 million was related to M&A costs and restructuring costs (2018: DKK 76 million). Restructuring costs were mainly related to discontinued outsourcing activities in Mexico and closedown of production facilities in Europe. The consolidated loss for 2019 is DKK 121 million (2018: DKK 55 million).

The balance sheet at 31 December 2019 for the Group shows total assets of DKK 2,731 million (2018: DKK 2,695 million) and equity of DKK 615 million (2018: DKK 1,021 million).

COVID-19 Virus

From late January 2020, our Chinese market and local operations has been severely impacted by the outbreak of the COVID-19 virus. Regardless, the Frontmatec Group delivered according to budget in January to March 2020.

From mid-March 2020, the outbreak of the COVID-19 virus has started to impact all of our main markets. For the most part, our customers are operating at normal capacity, due to being critical to the food supply chain, why we continue to see a good underlying demand for our product and services. However, internal measures taken to ensure employee safety and the extensive travel restrictions imposed are especially challenging to our service and installation business, which will impact short-term performance. At the same time, we see customers increasingly focusing on ensuring business continuity, why larger projects could be postponed, which will also impact performance short-term. Long-term we do not see a risk with respect to the larger projects, and the Frontmatec Group is well positioned due to our leading technology platform.

Frontmatec's Business Review

Other business units like Stunning and Controls Systems (software) are currently not impacted by the outbreak of the COVID-19 virus, and our Hygiene business unit is positively impacted due to increased focus on hygiene and food safety in general at our customers and related industries.

To mitigate the impact of the outbreak of COVID-19 virus on short-term performance, the Frontmatec Group has implemented a range of initiatives to boost sales, reduce costs and improve liquidity. Public COVID-19 virus support programs are also utilised, where relevant and applicable.

Events after the balance sheet date

Other than what has been described above regarding COVID-19 virus, there have been no events since 31 December 2019, which could significantly affect the evaluation of the Group's financial position and revenue.

Outlook

On the back of the strong revenue momentum in 2019, management expected further revenue growth in 2020 and significantly improved EBITDA due to improved production efficiency. However, the outlook for 2020 is negatively impacted by the outbreak of the COVID-19 virus, but due to the current uncertainty and low visibility, management is not providing a revised full year 2020 outlook.

Corporate Governance

Being owned by the Danish private equity firm Axcel, the Group is subject to the guidelines of the Danish Venture and Private Equity Association (DVCA, www.dvca.dk) for responsible ownership and corporate governance.

Management's focus on corporate governance is, among other things, based on the Danish Companies Act, the Danish Financial Statements Act, the company's articles of association and good practice from comparable companies. In addition, Management is continuously monitoring the development in the field of corporate governance to ensure that the Group, internally as well as externally, is managed in a way that is in accordance with applicable laws in order to protect the interests of all stakeholders.

Frontmatec's Business Review

Board of directors in operating entities

The board of directors of the Frontmatec Group operating entities ensures that the executive board complies with the objectives, strategies and business processes decided by the board of directors. Moreover, the board of directors ensures on an ongoing basis that the governance structure and control systems are appropriate and working well.

The board of directors consists of four members. The principal shareholder Axcel has appointed Christoffer Arthur Müller and Christian Schmidt-Jacobsen. The remaining two members of the board of directors are independent.

The board of directors has adopted the rules of procedure for the board of directors. In addition, the board of directors uses committees for special tasks. Thus, a chairman committee, an audit and risk committee and a remuneration committee have been established.

The following board members are represented on the individual committees:

- Chairman committee: Arne Vraalsen and Christoffer Arthur Müller
- Audit and risk committee: Christoffer Arthur Müller
- Remuneration committee: Arne Vraalsen

The board of directors meet on a predetermined schedule of meetings at least six times a year. Usually there is an annual strategy seminar in connection with an ordinary board meeting. The seminar defines the objectives and strategy of the Group. The chairman committee meets with the management of the company on a monthly basis.

Audit and risk committee meetings are held three to four times a year. The work of the audit committee is described in an annual calendar, which is approved by the board of directors. The committee is responsible for monitoring the company's financial reporting and the internal control environment as well as determining the relations and framework of the external audit. Standard procedures have been established, focusing on e.g. updating financial reporting standards and reviews of any items containing material accounting estimates and items of a one-off nature.

Other executive positions held by the board of directors and the executive board are specified in note 29.

Shareholders

Frontmatec Holding III ApS owns 93.02% of:

- Frontmatec Holding II ApS, which owns 100% of:
    - Frontmatec Holding I ApS, which owns 100% of:
        - Frontmatec Group ApS.

Frontmatec's Business Review

Account of the gender composition of management (in accordance with Danish Financial Statement Act §99b)

Frontmatec Group aims to promote diversity, e.g. with a fair representation of women on the board of directors as well as in the executive management group, based on a desire to strengthen the company's versatility, broaden its competences and improve its decision-making processes.

The board of directors aims to ensure that its members and the members of the executive board complement each other in the best possible way with respect to age, experience, nationality, gender, etc. for the purpose of ensuring a competent and versatile contribution to the work of the board in Frontmatec Group. These factors are taken into account when new candidates for the board of directors and executive board are identified, and the nomination of candidates will always be based on an assessment of their competences, how they match Frontmatec Group's requirements and how they will contribute to the overall efficiency of the board of directors and executive board. When filling vacancies externally, we strive to have at least one of each gender among the final candidates.

The share of women in the Frontmatec Group board of directors is 0% (2018: 0%) and executive board is 0% (2018: 0%), senior management is 14% (2018: 14%) and the total number of employees is 12% (2018: 11%). The objective is to have approximately 20% women in the board of directors and executive board within 2024.

The share of women in the board of directors was 0% in 2018 and 2019 and the objectives was not been met on December 31, 2019. No new board member has been appointed in 2019.

CSR

The Group has implemented measures for Corporate Social Responsibility which are included in the UN Global Compact communication on progress report. The UN Global Compact report with CSR initiatives is available on the Frontmatec website via the following link:
https://www.frontmatec.com/media/4987/frontmatec-cop_2019.pdf

Risk

Risk management is considered an essential and natural part of the realisation of the Group's objectives and strategy. The daily activities, the implementation of the established strategy and the continuous use of business opportunities involve inherent risks, and the company's handling of these risks is therefore seen as a natural and integrated part of the daily work and a way to ensure stable and reliable growth.

Frontmatec's Business Review

Unusual risks

The Group has no particular commercial or financial risks other than risks of common occurrence within the industry. The Group considers the risks in the industry to be related to the global market conditions.

Financial risks

The Group is exposed to changes in exchange rates and interest rates due to its operational and financial set-up. The Group manages its financial risks through instruments for hedging of currencies, and interests.

Knowledge resources

The leading position of the Group within the red meat processing industry is dependent on the ability to retain and attract employees with special skills and experience in order to achieve its business goals.

IT risks

Frontmatec uses IT to a significant extent and is vulnerable to interruptions of operations and breaches of the established security. Frontmatec constantly seeks to improve its IT security in order to ensure that a high level of security is maintained at all times.

Alternative performance measures

The Group assesses its performance using a variety of alternative performance measures which are not defined under IFRS. The Group applies these measures because it is considered an important supplement measure of the Group's financial performance. It is to be noted that since not all companies calculate financial measurements in the same manner, these are not always comparable to measurements used by other companies (even if similarly labelled). Accordingly, these financial measures should not be seen as a substitute for measures defined according to IFRS.

A reconciliation from these alternative performance measures to the nearest IFRS measure is presented below.

Pro forma revenue (non-IFRS)
Pro forma revenue is defined as revenue from all group entities for the period 1 January to 31 December. Group entities included are entities where the Group has made an investment at 31 December and comprise subsidiaries and associated companies. For associated companies, revenue is included on a pro rata basis. For entities acquired during the year, revenue is measured as though the acquisition date for all acquired entities during the year had been as of the beginning of the annual reporting period.

Management considers pro forma revenue to be a useful measure of the full year activities of the Group, as it is per year-end.

Pro forma Turnover for the period ending 31 December

	2019 DKK'000	2018 DKK'000
Revenue for the period ending 31 December	1,662,323	1,418,685
Impact from acquisitions (full year revenue)	11,608	6,516
Impact from associated companies (pro-rata)	32,697	-
Pro forma Turnover (non-IFRS)	**1,706,628**	**1,425,201**
Turnover (IFRS)	**1,662,323**	**1,418,685**

Pro forma EBITDA (non-IFRS)
Pro forma EBITDA is defined as earnings before interest, tax, special non-recurring items, depreciation, amortization and impairment for all group entities for the period 1 January to 31 December. Group entities included are entities where the Group has made an investment at 31 December and comprise subsidiaries and associated companies. For associated companies, pro forma EBITDA is included on a pro rata basis. For entities acquired during the year, pro forma EBITDA is measured as though the acquisition date for all acquired entities during the year had been as of the beginning of the annual reporting period.

Alternative performance measures

Management considers pro forma EBITDA to be a useful measure of full year performance of the Group as it is per year-end by adding financials for associated companies and full year numbers for acquired businesses during the year and by excluding such interest, tax, special non-recurring items, depreciation, amortization and impairment, i.e. the measure is not impacted by capital investments or extraordinary income and expenses that are considered to be non-recurring.

Pro forma EBITDA for the period ending 31 December

	2019 DKK'000	2018 DKK'000
EBITDA (non-IFRS)	184,670	226,061
Impact from acquisitions (full year EBITDA)	2,384	(35)
Impact from associated companies	13,970	-
Pro forma EBITDA (non-IFRS)	**201,024**	**226,026**
EBITDA (IFRS)	**171,849**	**207,176**

EBITDA (non-IFRS)
EBITDA is defined as earnings before interest, tax, depreciation, amortization, impairment and special non-recurring items. Management considers EBITDA to be a useful measure to monitor the underlying performance because by excluding the before mentioned items, the measure is not impacted by capital investments when measuring performance.

The following table provides a reconciliation of Operating loss (EBIT) to EBITDA:

EBITDA for the period ending 31 December

	2019 DKK'000	2018 DKK'000
Operating loss	(33,870)	(5,169)
Amortisation of intangible assets	89,492	87,750
Depreciation of intangible assets	20,116	17,380
Amortisation of property, plant, machinery and equipment	957	1,507
Depreciation on property, plant, machinery and equipment	18,232	17,488
Depreciation of leased assets	17,125	11,790
Loss on disposals	112	4,662
Special non-recurring items (see specification below)	72,506	90,653
EBITDA (non-IFRS)	**184,670**	**226,061**
EBITDA (IFRS)	**171,849**	**207,176**

Alternative performance measures

Special non-recurring items (non-IFRS)

Special non-recurring items are defined as non-recurring income and expenses that are not considered to be a part of the Group's ordinary operations such as restructuring costs and discontinued activities. Management considers adjustments for special items to be a useful measure to monitor the underlying and ordinary performance of the Group.

The following table provides a specification of special non-recurring items:

Special non-recurring items for the period ending 31 December

	2019 DKK'000	2018 DKK'000
External costs related to acquisitions	16,599	10,523
Discontinuing outsourcing activities	23,386	-
Costs of internal restructuring	23,947	66,244
Other	8,574	13,886
Special non-recurring items (non-IFRS)	**72,506**	**90,653**
Special non-recurring items (IFRS)	**59,797**	**76,470**

Consolidated Income Statement 1 January – 31 December

	Note	2019 DKK'000	2018 DKK'000
Revenue	4	1,662,323	1,418,685
Production costs	5,6	(1,156,856)	(916,858)
Other operating income		154	-
External costs		(111,965)	(104,300)
Gross profit		**393,656**	**397,527**
Staff costs	6	(221,695)	(185,689)
Other operating costs	8	(112)	(4,662)
Operating profit before depreciation amortisation and special items		**171,849**	**207,176**
Special non-recurring items	9	(59,797)	(76,470)
Depreciation, amortisation and impairment of non-current assets	7	(145,922)	(135,875)
Operating loss		**(33,870)**	**(5,169)**
Share of results of associates	16	13,361	-
Financial income	10	2,648	27,769
Financial expense	11	(79,839)	(74,527)
Loss before tax		**(97,700)**	**(51,927)**
Tax for the year	12	(23,216)	(3,108)
Loss for the year		**(120,916)**	**(55,035)**

Statement of comprehensive income

	2019 DKK'000	2018 DKK'000
Loss for the year	**(120,916)**	**(55,035)**
Items that are or may be reclassified subsequently to profit or loss:		
Unrealised gain/loss on forward exchange contracts for the year	2,236	(10,471)
Herof tax	(492)	2,304
Exchange rate gain/loss on foreign operations	12,223	(3,633)
Other comprehensive income for the year after tax	**13,967**	**(11,800)**
Comprehensive income for the year	**(106,949)**	**(66,835)**

Consolidated Statement of Financial Position

	Note	31.12 2019 DKK'000	31.12 2018 DKK'000
Goodwill		1,109,933	1,100,455
Development completed		269,964	317,972
Acquired intangible assets		183,940	191,810
Development in progress		82,551	47,262
Intangible assets	13	**1,646,388**	**1,657,499**
Land and buildings		137,073	130,946
Plant and machinery		33,296	25,631
Other fixtures and fittings, tools and equipment		15,160	14,330
Right-of-use assets	15	48,007	36,658
Property, plant and equipment	14	**233,536**	**207,565**
Investments in associates	16	40,292	-
Deferred tax asset	19	31,226	48,494
Fixed asset investments		**71,518**	**48,494**
Non-current assets		**1,951,442**	**1,913,558**
Inventories	17	**197,804**	**184,036**
Trade receivables	18	262,723	260,889
Contract assets	19	168,855	126,407
Amounts owed by Group entities		32	162
Income taxes receivable		639	7,493
Other receivables		54,991	41,489
Prepayments		1,207	13,914
Receivables		**488,447**	**450,354**
Securities and investments		**5,753**	**22,909**
Cash at bank and in hand		**87,862**	**124,311**
Current assets		**779,866**	**781,610**
Assets		**2,731,308**	**2,695,168**

Consolidated Statement of Financial Position

	Note	31.12 2019 DKK'000	31.12 2018 DKK'000
Share capital	22	100	100
Reserve for value adjustments of hedging transactions		(4,430)	(6,174)
Reserve for foreign exchange adjustments		19,581	7,358
Retained earnings		599,333	1,019,749
Equity		**614,584**	**1,021,033**
Deferred tax	21	118,662	130,955
Lease liabilities		33,840	23,773
Other credit institutions	23	1,294,250	682,686
Non-current liabilities		**1,446,752**	**837,414**
Current portion of long-term liabilities	23	17,791	46,574
Other credit institutions		118,357	155,408
Other provisions	24	12,853	10,570
Contract liabilities	20	142,272	234,197
Trade payables		171,131	212,828
Payable to associate company		11,514	-
Amounts owed to Group entities		1,765	-
Income taxes		13,024	40,837
Deferred income		2,780	-
Other payables		178,485	136,307
Current liabilities		**669,972**	**836,721**
Liabilities		**2,116,724**	**1,674,135**
Equity and liabilities		**2,731,308**	**2,695,168**

Consolidated Statement of Changes in Equity 1 January – 31 December

	Share capital DKK'000	Value adjust-ments of hedging transactions DKK'000	Foreign exchange adjust-ments DKK'000	Retained earnings DKK'000	Total DKK '000
Equity at 1 January 2018	**100**	**1,993**	**5,322**	**971,784**	**979,199**
Comprehensive income for the year					
Loss for the year	-	-	-	(55,035)	(55,035)
Other comprehensive income					
Unrealised profit on currency and interest swap in group entities	-	(10,471)	-	-	(10,471)
Hereof tax	-	2,304	-	-	2,304
Exchange rate on foreign investments	-	-	(3,633)	-	(3,633)
Comprehensive income for the year in total	**-**	**(8,167)**	**(3,633)**	**(55,035)**	**(66,835)**
Capital contribution	-	-	-	103,000	103,300
Share-based payment	-	-	5,669	-	5,669
Equity at 31 December 2018	**100**	**(6,174)**	**7,358**	**1,019,749**	**1,021,033**
Equity at 1 January 2019	**100**	**(6,174)**	**7,358**	**1,019,749**	**1,021,033**
Comprehensive income for the year					
Loss for the year	-	-	-	(120,916)	(156,978)
Paid dividend	-	-	-	(292,860)	(292,860)
Dividend tax	-	-	-	(6,135)	(6,135)
Other comprehensive income					
Unrealised profit on currency and interest swap in group entities	-	2,236	-	-	2,236
Hereof tax	-	(492)	-	-	(492)
Exchange rate on foreign investments	-	-	12,223	-	(12,223)
Comprehensive income for the year in total	**-**	**1,744**	**12,223**	**(419,911)**	**(405,944)**
Capital contribution	-	-	-	-	-
Share-based payment	-	-	-	(505)	(505)
Equity at 31 December 2019	**100**	**(4,430)**	**19,581**	**599,333**	**614,584**

Consolidated Cash Flow Statement

	Note	31.12 2019 DKK'000	31.12 2018 DKK'000
Operating loss		(33,870)	(5,169)
Depreciation, amortisation and impairment losses		145,922	135,875
Provisions		556	(2,624)
Changes in receivables		5,333	(4,233)
Changes in inventory, contract assets and contract liabilities		(141,758)	(1,168)
Changes in trade payables		(30,183)	78,971
Changes in other working capital		46,410	(33,358)
Interest received		2,648	27,769
Interest paid		(79,839)	(74,525)
Corporation tax paid		(44,242)	(16,617)
Cash flows from operating activities		**(129,023)**	**104,921**
Addition of intangible assets and property, plant and equipment		(105,447)	(39,832)
Sale of property, plant and equipment		2,026	47,729
Business acquisitions		(60,628)	(86,701)
Cash flow from investing activities		**(164,049)**	**(78,804)**
Capital movement		(287,283)	105,036
Contracting of long-term liabilities		580,957	(159,977)
Cash flows from financing activities		**293,674**	**(54,941)**
Net cash flows for the year		**602**	**(28,824)**
Cash and cash equivalents 1 January		(31,097)	(2,273)
Cash and cash equivalents at 31 December		**(30,495)**	**(31,097)**

Cash and cash equivalents include cash at bank and in hand and current portion of other credit institutions.

Notes to the Consolidated Financial Statements

1. Adoption of new and revised International Financial Reporting Standards (IFRS)

In the current year, the Group has applied a number of amendments to IFRS Standards and Interpretations issued by the IASB that are effective for an annual period that begins on or after 1 January 2019. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments

The Group has adopted IFRIC 23 for the first time in the current year. IFRIC 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The Interpretation requires the Group to: • determine whether uncertain tax positions are assessed separately or as a group; and • assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings: – If yes, the Group should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. – If no, the Group should reflect the effect of uncertainty in determining its accounting tax position using either the most likely amount or the expected value method.

Annual Improvements to IFRS Standards 2015–2017 Cycle Amendments to IAS 12 Income Taxes

The Group has adopted the amendments included in the Annual Improvements to IFRS Standards 2015–2017 Cycle for the first time in the current year. The Annual Improvements include amendments to four Standards whereas one "IAS 12 Income Taxes" is relevant for the Group.

The amendments clarify that the Group should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the Group originally recognised the transactions that generated the distributable profits. This is the case irrespective of whether different tax rates apply to distributed and undistributed profits.

2. Disclosure of material uncertainties

The preparation of the Annual Report requires that Management makes estimates and assumptions that affect the recognised assets and liabilities, including the disclosures made regarding contingent assets and liabilities, when applying the accounting policies.

Management considers the following estimates and assessments essential for preparing the financial statements.

Revenue/construction contracts

The total expected costs related to construction contracts are partly based on an estimate, as they include provisions for unforeseen cost deviations in future supplies of raw materials, subcontractor products and services plus commissioning and handing over. Cost estimates have an impact when assessing the progress of contract works and thereby revenue recognition.

Notes to the Consolidated Financial Statements

2. Disclosure of material uncertainties (continued)

Impairment test

An estimate is made of the future free net cash flow based on budgets and the strategy and projections for subsequent years. Significate parameters in this estimate are discount rate, revenue development, EBIT margins and growth expectations for the years after the budget year.

Deferred tax liabilities and assets

Deferred tax assets are recognised if it is likely that there will be taxable income in the future against which timing differences or tax loss carry forwards may be used.

For this purpose, Management estimates the coming years' earning based on budgets and expected growth.

Inventories

The net realisable value of inventories is calculated as selling price less costs of completion and costs necessary to make the sale. The net realisable value is determined, taking into account marketability, obsolescence and development in expected selling prices. Following the economic trend in the market, Management have given special attention to inventory turnover when determining net realisable value.

Trade receivables

Estimates are used in determining the level of receivables that cannot be collected according to Management. When evaluating the adequacy of the allowance for doubtful receivables, Management analyses trade receivables and examines changes in customer creditworthiness, customer payment patterns and current economic trends.

Warranties

Warranties are measured on the basis of empirical information covering several years as well as estimates by Management of future trends.

3. Other general accounting policies

The consolidated annual accounts are presented in accordance with IFRS as adopted by the EU and other requirements of the Danish Financial Statements Act for large class C companies.

The annual accounts of the parent company are presented in accordance with IFRS as adopted by the EU and other requirements of the Danish Financial Statements Act for large class C companies.

Changes to accounting policies

Accounting policies for presentation of the income statement has changed from a functional to a species breakdown of costs. The change has an impact on external costs and salaries which are now presented directly in the income statement compared to earlier years where the information was part of the disclosures. There is no changes to the total profit loss and financial ratios. Comparables have been restated to reflect the updated policy.

Notes to the Consolidated Financial Statements

The background for changing the policy is alignment of the external reporting with internal information prepared for the investors and management reporting.

The accounting standards as described below have been applied consistently for the financial year and comparison periods. For new standards that are implemented the comparatives have not been restated.

Basis of recognition and measurement

Assets are recognised in the balance sheet when it is probable that future financial benefits will accrue to the Group and the value of the assets can be measured reliably. Liabilities are recognised in the balance sheet when the Group as a result of a previous event has a legal or actual commitment, and it is probable that future financial benefits will flow out of the Group and the value of the liability can be measured reliably. Measurement at initial and subsequent recognition of assets and liabilities takes place as described for each individual item below. At recognition and measurement, various risks and losses which appear before the annual report is presented and which confirm or invalidate matters which existed on the balance sheet date are taken into consideration.

Reporting currency

The annual report is presented in Danish kroner (DKK) and rounded to thousands of DKK. DKK is the presentation currency of the activities of the Group and the functional currency of the Parent Company.

Consolidation

The consolidated financial statements comprise the Parent Company Frontmatec Holding I ApS and entities controlled by it. Control is presumed to exist when the parent owns, directly or indirectly, more than half of the voting power of an entity is exposed or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns. Control may also exist by virtue of an agreement or articles of association or when the parent otherwise has a controlling interest in the subsidiary or actually exercises controlling influence over it.

The existence and effect of potential voting rights that are currently substantive are considered when assessing whether control exists including whether the parent has an exposure or has rights to variable returns from its involvement with the entity.

The consolidated entities' financial statements are prepared in accordance with the accounting policies applied by the parent. The consolidated financial statements are prepared on the basis of the financial statements of the consolidated entities by adding together like items. Intra-group income, expenses, gains, losses, investments, dividends and balances are eliminated.

Notes to the Consolidated Financial Statements

Business combinations

Recently acquired or sold subsidiaries are recognised in the consolidated comprehensive income statement for the period in which the parent controls such entities. Comparative figures are not restated for recently acquired or sold entities.

The acquisition method is applied to the acquisition of subsidiaries. The cost is made up at the fair value of the consideration. Acquisition-related costs are recognised in the comprehensive income statement. Conditional payments are recognised at fair value at the amount expected to be paid. Identifiable assets and liabilities in the acquired entities are recognised at the fair value at the time of acquisition. Provisions for restructuring expenses relating to the acquired entity are recognised if the restructuring has been decided at the time of acquisition. Provisions for deferred tax are recognised according to fair value revaluations of assets and liabilities. Any residual difference between the cost and the Group's share of the fair value of the identifiable assets and liabilities including deferred tax is recognised as goodwill or negative goodwill.

If there is uncertainty regarding the identification or measurement of acquired assets, liabilities and contingent liabilities or the determination of the consideration at the date of acquisition, initial recognition is based on provisional values. The provisional values can be adjusted or additional assets or liabilities included until 12 month after the acquisition date. If new information has occurred regarding circumstances that existed at the time of acquisition which would have affected the statement of value at the time of acquisition if the information had been known, assets and liabilities including goodwill are restated accordingly.

Currency translation

The functional currency is determined for each of the reporting entities. The functional currency is the currency primarily used by the individual reporting entity in connection with day-to-day operations. Transactions in another currency than the functional currency are transactions in foreign currency.

Transactions in another currency than the functional currency are translated at a periodic average currency rate or the exchange rate on the transaction date. Receivables, payables and other monetary items denominated in foreign currencies are translated into Danish kroner (DKK) at the exchange rate on the balance sheet date. Any foreign exchange differences between rates prevailing on the date of transaction and the payment date or the balance sheet date, as the case may be, are recognised in the comprehensive income statement as financial items.

Foreign group entities

As regards foreign operations, the items in their financial statements are translated using the following principles:

- Balance sheet items are translated at the closing rate.
- Items in the comprehensive income statement are translated at an average periodic exchange rate.

Any exchange differences resulting from the translation of the opening equity at the closing rate and the exchange adjustment of the items in the comprehensive income statement from the rate at the date of the transaction to the closing rate are recognised through other comprehensive income and attributed to a separate translation reserve in equity.

Notes to the Consolidated Financial Statements

Derivative financial instruments

On initial recognition, derivative financial instruments are measured at fair value. On subsequent recognition, derivative financial instruments are measured at fair value at the balance sheet date. Positive and negative fair values are recognised as other receivables and other payables, respectively.

Fair value adjustments of derivative financial instruments designated as and qualifying for recognition as a fair value hedge of recognised assets or liabilities are recognised in the comprehensive income statement together with changes in the fair value of the hedged asset or liability.

Fair value adjustments of derivative financial instruments designated and qualifying as a cash flow hedge are taken to equity until the hedged transaction is carried through. Where the future transaction results in recognition of an asset or a liability, the accumulated fair value adjustment is transferred from equity to the cost of the asset or liability. Where the future transaction results in income or expenses, the accumulated fair value adjustment is transferred from equity to the comprehensive income statement together with the hedged item.

Fair value adjustments of derivative financial instruments which do not qualify for being treated as hedging instruments are recognised in the comprehensive income statement as financial income or expenses.

Comprehensive income

Revenue recognition

The Group recognizes revenue from the following major sources:

- Sale of spare parts and consumables
- Construction and installation of specialized machinery and equipment including automation
- Supply of service

Revenue is measured based on the consideration to which The group expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The group recognizes revenue when it transfers control of a product or service to a customer.

Sale of spare parts

The Group sells spare parts and consumables directly to customers. Sales-related warranties associated with spare parts cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with IAS 37. Revenue is recognized when control of the goods has transferred being when the goods have been shipped to the customer’s specific location (delivery). A receivable is recognized by the Group when the goods are delivered to customer as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

Notes to the Consolidated Financial Statements

Construction and installation of specialized machinery and equipment

The Group constructs and sells specialized machinery and equipment including automation under long-term contracts with customers. Such contracts are entered into before construction begins. Under the terms of the contracts, the Group has an enforceable right to payment for work done. Revenue from these contracts is therefore recognized over time on a cost-to cost method, i.e. based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs. The directors consider that this input method is an appropriate measure of the progress towards complete satisfaction of these performance obligations under IFRS 15.

The Group becomes entitled to invoice customers based on achieving a series of performance-related milestones. When a particular milestone is reached the customer is sent a relevant statement of work and an invoice for the related milestone payment. The Group will previously have recognized a contract asset for any work performed. Any amount previously recognized as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer. If the milestone payment exceeds the revenue recognized to date under the cost-to-cost method then the Group recognizes a contract liability for the difference. There is not considered to be a significant financing component in construction contracts with customers as the period between the recognition of revenue under the cost-to-cost method and the milestone payment is typically less than one year.

Supply of service

The Group provides service for maintenance and repair purposes. Such services are recognized as a performance obligation satisfied over time. Revenue is recognized for these services based on the stage of completion of the contract. The directors have assessed that the stage of completion determined as the proportion of the total time expected to install that has elapsed at the end of the reporting period is an appropriate measure of progress towards complete satisfaction of these performance obligations under IFRS 15. Payment for service rendered is typically not due from the customer until the service is completed and therefore a contract asset is recognized over the period in which the installation services are performed representing the entity’s right to consideration for the services performed to date.

Other operating income and operating expenses

Other operating income and operating expenses comprise items of a secondary nature relative to the entity's core activities.

Production costs

Production costs comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in inventories of these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary writedowns of the relevant inventories. Production costs regarding construction contracts for third parties are recognised as incurred. Production costs further include research and development costs not satisfying the capitalisation criteria.

Notes to the Consolidated Financial Statements

External costs

Other external expenses include expenses relating to the Entity’s ordinary activities, including expenses for premises, stationery and office supplies, marketing costs, etc. This item also includes writedowns of receivables recognised in current assets.

Grants

Grants for research and development costs are recognised in the comprehensive income statement as other operating income on a systematic basis over the period in which the Group recognises the expenses for which the grants are intended to compensate.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

Special non-recurring items

Special non-recurring items include significant income and costs of a special nature in terms of the Group's revenue generating operating activities which cannot be attributed directly to the Group's ordinary operating activities. Such income and costs include the cost related to significant restructuring of processes and fundamental structural adjustment, as well as gains or losses arising in this connection, and which are significant over time.

Special items also include items that by nature are non-recurring, specifically impairment of goodwill, gains and losses on the disposal of activities and transaction cost in a business combination. These items are classified separately in the income statement, in order to provide a more accurate and transparent view of the Group's recurring operating profit.

Amortisation/depreciation of intangible assets and property, plant and equipment

The item comprises amortisation/depreciation of intangible assets and property, plant and equipment.
Intangible assets and property, plant and equipment are amortised/depreciated on a straight-line basis over the expected useful life of each individual asset. The amortisation/depreciation basis is the cost and a scrap value of zero. The expected useful lives of the assets are as follows:

	Useful life (years)
Buildings	10-40
Plant and machinery	3-10
Other fixtures and fittings, tools and equipment	3-5
Development costs	3-10
Acquired intangible assets	3-10

Notes to the Consolidated Financial Statements

Income from investments in associates

Income from investments in associates comprises the pro rata share of the individual associate’s profit/loss after elimination of internal profits or losses.

Financial income and expenses

Financial income and expenses are recognised in the comprehensive income statement at the amounts that relate to the financial reporting period. The items comprise interest income and expenses, e.g. from group entities, dividends declared from other securities and investments, realised and unrealised capital gains and losses relating to other securities and investments, exchange gains and losses and amortisation of financial assets and liabilities in consolidated financial statements and parent company financial statements the period 1 January - 31 December.

Tax

Tax for the year includes current tax on the year's expected taxable income and the year's deferred tax adjustments. The portion of the tax for the year that relates to the profit/loss for the year is recognised in the comprehensive income statement, whereas the portion that relates to transactions taken to equity is recognised in equity.

Current tax liabilities and current tax receivable, respectively, are recognised in the balance sheet, computed as calculated tax of the taxable income of the year, adjusted for tax paid on account.

Deferred tax is recognised and measured by the balance orientated liability method of all temporary differences between book value and value for tax of assets and liabilities. Tax value of the assets is computed on the basis of the planned use of the individual asset. Deferred tax is measured on the basis of the tax rules and the rates of tax in the respective countries, which with the legislation on the balance sheet day, will apply when the deferred tax is expected triggered as current tax. Changes in deferred tax as a result of changes in tax rates are recognised in the statement of comprehensive income. Deferred tax assets, including value for tax of tax losses allowed for carry forward are recognised in the balance sheet with the value at which the asset is expected to be realised, either through set off in deferred tax liabilities or as net tax assets.

Balance sheet

Goodwill

Goodwill is measured in the balance sheet at cost in connection with initial recognition. Subsequently, goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to the cash flow generating units as defined by Management. The determination of cash generating units complies with the managerial structure and the internal control and reporting in the Group.

Notes to the Consolidated Financial Statements

Other intangible assets

Acquired intangible assets are measured at cost less accumulated amortisation and impairment losses.

Development projects are capitalised if they are clearly defined and identifiable and the following recognition criteria can be satisfied:

- the technical feasibility of completing the project can be demonstrated
- plans are to produce and market the product or to use the product or the process
- sufficient technical and financial resources to complete and use or sell the project are available
- it is probable that the project will generate future economic benefits and that a potential, future market or possibility of internal use in the entity exists
- the cost can be made up reliably.

Development costs not satisfying the above criteria are expensed in the comprehensive income statement as incurred. The cost of development projects is measured at direct costs incurred as well as a portion of costs directly attributable to the individual development projects.

Property, plant and equipment

Land and buildings, plant and facilities and other fixtures and fittings are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated, as the scrap value expects to exceed carrying amounts.

Cost includes the acquisition price and costs directly related to the acquisition until the time at which the asset is ready for use. The cost of self-constructed non-current assets includes the cost of direct materials and labor, etc. directly used in the production process and a portion of the relating production overheads.

Investments in group entities

Investments in subsidiaries are in the Parent company's financial statements measured at cost less impairment. Where the cost exceeds the recoverable amount, an impairment loss is recognised to this lower value.

Impairment test

Goodwill is tested for impairment at least once a year and when there is evidence of impairment, the first time being before the end of the year of acquisition. The carrying amounts of other non-current assets are reviewed each year to determine whether there is any evidence of impairment. If any such evidence exists, the recoverable amount of the asset is calculated. The recoverable amount is the higher of the fair value of the assets less expected disposal costs or value in use.

Impairment losses are recognised if the carrying amount of an asset or a cash generating unit exceeds the recoverable amount of the asset or the cash generating unit. Impairment losses are recognised in the comprehensive income statement under the same heading as the related amortisation and depreciation. Impairment of goodwill is not reversed. Recognition of impairment of other assets is reversed to the extent that changes have taken place in the assumptions and estimates that led to the recognition of impairment.

Notes to the Consolidated Financial Statements

Loss on impairment is only reversed to the extent that the new carrying amount of the asset does not exceed the carrying amount which the asset would have had after depreciation or amortisation if the asset had not been written down for impairment.

Inventories
Inventories are measured at the lower of cost, measured by reference to the FIFO method, and net realisable value. The cost of raw materials and consumables comprises the cost of acquisition plus delivery costs as well as other costs directly attributable to the acquisition.

Work in progress and finished goods are measured at manufacturing cost, which includes the cost of raw materials, consumables and direct payroll costs plus production overheads.

Production overheads comprise direct attributable costs incurred in connection with processing raw materials into finished goods, including labor as well as maintenance and amortisation/depreciation of intangible assets and property, plant and equipment used in the production process.

Receivables
Receivables are recognised initially at fair value less expected credit loss. The expected credit losses on these financial assets are estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the report date, including time value of money where appropriate.

Construction contracts
Ongoing service supplies and construction contracts are measured at the fair value of the work performed less advances received. The fair value is calculated on the basis of the percentage of completion at the balance sheet date and the total expected income from the relevant contract. The percentage of completion is made up based on costs incurred relative to the expected, total expenses on each individual construction contract.

Where the outcome of a construction contract cannot be made up reliably, the fair value is measured at the costs incurred in so far as they are expected to be paid by the purchaser.

Where the total expenses relating to the construction contract are expected to exceed the total fair value, the expected loss is recognised as a loss making agreement under "Provisions" and is expensed in the comprehensive income statement.

The value of each construction contract less prepayments is classified as contract assets when the fair value exceeds prepayments and as contract liabilities when prepayments exceed the fair value.

Notes to the Consolidated Financial Statements

The individual construction contract is recognised in the balance sheet under receivables or liabilities dependent on whether the net value, calculated as the purchase price less received prepayments, is negative or positive.

Securities and investments

Securities and investments are measured at fair value. The fair value is made up at the market value at the balance sheet date if the securities are listed and at a value made up using generally recognised valuation principles if the securities are unlisted.

Cash

Cash comprises cash balances and bank balances and are measured at amortised cost.

Employee obligations

Pension obligations and similar non-current liabilities

The Group has entered into pension plans and similar arrangements with most employees.

Contributions to defined contribution plans where the Group makes fixed pension payments to independent pension funds are recognised in the income statement in the period to which they relate, and any outstanding contributions are recognised in the statement of financial position as other payables.

Incentive programme

The value of services received in exchange for granted options is measured at the fair value of the options granted.
For equity-settled programmes, the share options are measured at the fair value at the grant date and recognised in the income statement under staff costs over the vesting period. The counter entry is recognised directly in equity as an owner transaction.

On initial recognition of the share options, an estimate is made of the number of options expected to vest. That estimate is subsequently revised for changes in the number of options expected to vest so that the total recognition is based on the actual number of vested options.

Accordingly, recognition is based on the number of options ultimately vested. The fair value of granted options is estimated using an option pricing model, taking into account the terms and conditions upon which the options were granted.

Provisions

Provisions comprise expected expenses relating to guarantee commitments, losses on construction contracts, restructurings, etc. Provisions are recognised when the entity has a legal or constructive obligation as a result of a past event at the balance sheet date and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Notes to the Consolidated Financial Statements

Income tax

Current tax payables and receivables are recognised in the balance sheet as the estimated tax charge in respect of the taxable income for the year, adjusted for tax on prior years' taxable income and tax paid on account.

Provisions for deferred tax are calculated, based on the liability method, of all temporary differences between carrying amounts and tax values, with the exception of temporary differences occurring at the time of acquisition of assets and liabilities neither affecting the results of operations nor the taxable income, as well as temporary differences on non-amortisable goodwill.

Deferred tax is measured according to the taxation rules and taxation rates in the respective countries applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Deferred tax assets are recognised at the value at which they are expected to be utilised, either through elimination against tax on future earnings or through a set off against deferred tax liabilities within the same jurisdiction.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. Interest bearing debt is subsequently measured at amortised cost, using the effective interest rate method. Borrowing costs, including capital losses, are recognised as financing costs in the comprehensive income statement over the term of the loan. Other liabilities are measured at net realisable value.

Deferred income

Deferred income is measured at cost in consolidated financial statements and parent company financial statements for the period 1 January - 31 December.

Cash flow statement

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

Cash flows from operating activities are presented using the indirect method and are made up as the profit or loss for the year, adjusted for non-cash operating items, changes in working capital, paid net financials and paid income taxes.

Cash flows from investing activities comprise payments in connection with purchase and sale of fixed assets, securities which are part of investment activities and payments in connection with purchase and sale of businesses and activities.

Cash flows from financing activities comprise dividends paid to shareholders, capital increases and reductions, borrowings and repayments of interest bearing debt.

Cash and cash equivalents comprise cash and short-term securities in respect of which the risks of changes in value are insignificant.

Notes to the Consolidated Financial Statements

	2019 DKK'000	2018 DKK'000
4. Revenue		
Segmentation of revenue:		
Domestic	216,179	176,179
Foreign:		
Slaughterhouses	1,224,232	1,023,495
Other	221,912	219,011
	1,662,323	**1,418,685**
Timing of revenue recognition		
Recognition at single point of time	221,912	219,011
Recognition over time	1,440,411	1,199,674
	1,662,323	**1,418,685**

Performance obligations are usually satisfied within a 12-month period and hence part of the transaction price allocated to the unsatisfied part of ongoing contracts is not disclosed.

	2019 DKK'000	2018 DKK'000
5. Production costs		
Production costs for the year	1,148,030	910,655
Inventory write-down for the year	8,826	6,203
	1,156,856	**916,858**
6. Staff costs		
Wages and salaries	490,937	457,618
Pensions	18,383	19,558
Other social security costs	34,588	33,264
	543,908	**510,440**
Average number of full-time employees	1,263	1,230

Notes to the Consolidated Financial Statements

6. Staff costs (continued)

Staff costs are recognized as follows in the financial statements:

	2019 DKK'000	2018 DKK'000
Raw materials and consumables used	318,113	322,611
Employee benefit costs	221,695	185,689
Special non-recurring items	4,100	2,140
	543,908	**510,440**

Total remuneration to Executive Board and Board of Directors of DKK 0 thousand (0 thousand in 2018).

7. Depreciation, amortisation and impairment of non-current assets

	2019 DKK'000	2018 DKK'000
Development projects completed	74,261	70,534
Acquired intangible assets	35,347	34,596
Buildings	7,454	8,541
Plant and equipment	6,025	4,902
Other fixtures and fittings, tools and equipment	5,710	5,512
Right-of-use assets	17,125	11,790
	145,922	**135,875**
Loss on sale of property, plant and equipments recognised as other operating costs	112	4,662
	145,922	**140,537**

Notes to the Consolidated Financial Statements

	2019 DKK'000	2018 DKK'000
8. Other operating cost		
Loss on sale of property, plant and equipments	112	4,662
9. Special non-recurring items		
External cost related to acquisitions	13,215	10,226
Discontinuing outsourcing activities	23,386	-
Cost of internal restructuring	23,196	66,244
	59,797	**76,470**
10. Financial income		
Other interest receivable, exchange rate gains and similar income	2,648	27,769
	2,648	**27,769**
11. Financial expense		
Interest expense, exchange rate losses and similar expenses	77,887	73,356
Calculated interest expense for right of use assets	1,952	1,171
	79,839	**74,527**
12. Tax for the year		
Current tax for the year	13,813	59,451
Current tax for last year	1	(358)
Changes in provision for deferred tax	9,402	(55,985)
	23,216	**3,108**
Specified as follows:		
Tax for the year	24,366	4,605
Tax for last year	(1,152)	(660)
Tax on changes in OCI	2	(837)
	23,216	**3,108**
Reconciliation of tax rate:		
Tax according to Danish tax rate	53,455	(11,424)
Differences in the tax rates in foreign subsidiaries relative to 22%	4,851	4,209
Non-taxable income and non-deductible costs	(67,282)	9,027
Adjustments of tax regarding previous years	(286)	2,013
Not recognised deferred tax asset	32,478	(717)
	23,216	**3,108**
Reconciliation of tax rate:		
Effective tax rate (%)	(23,8)	(6.0)

Notes to the Consolidated Financial Statements

13. Intangible assets

DKK´000	Goodwill	Development projects completed	Acquired intangible assets	Development projects in progress	Total
Cost price					
Cost at 1/1 2018	990,353	463,175	262,802	25,439	1,741,769
Acquisitions	110,102	-	15,676	-	125,778
Exchange rate adjustments	-	(331)	(40)	(77)	(448)
Transfer	-	8,363	1,552	(8,418)	1,497
Additions in the year	-	8,024	2,465	30,318	40,807
Disposals in the year	-	-	-	-	-
Cost at 31/12 2018	**1,100,455**	**479,231**	**282,455**	**47,262**	**1,909,403**
Amortisation and write-downs					
Balance at 1/1 2018	-	90,831	55,676	-	146,507
Exchange rate adjustments	-	(106)	7	-	(99)
Transfer	-	-	366	-	366
Amortisation in the year	-	70,534	34,596	-	105,130
Disposals in the year	-	-	-	-	-
Amortisation and Write-downs at 31/12 2018	**-**	**161,259**	**90,645**	**-**	**251,904**
Carrying amount at 31/12 2018	**1,100,455**	**317,972**	**191,810**	**47,262**	**1,657,499**

Notes to the Consolidated Financial Statements

12. Intangible assets (continued)

DKK´000	Goodwill	Development projects completed	Acquired intangible assets	Development projects in progress	Total
Cost price					
Cost at 1/1 2019	1,100,455	479,231	282,455	47,262	1,909,403
Acquisitions	9,478	-	18,836	-	28,314
Exchange rate adjustments	-	728	178	700	1,606
Transfer	-	24,690	(359)	(24,690)	(359)
Additions in the year	-	1,224	8,778	61,123	71,125
Disposals in the year	-	-	-	(1,844)	(1,844)
Cost at 31/12 2019	**1,109,933**	**505,873**	**309,888**	**82,551**	**2,008,245**
Amortisation and write-downs					
Balance at 1/1 2019	-	161,259	90,645	-	251,904
Exchange rate adjustments	-	389	80	-	469
Transfer	-	-	(124)	-	(124)
Amortisation in the year	-	74,261	35,347	-	109,608
Amortasation and Write-downs at 31/12 2019	**-**	**235,909**	**125,948**	**-**	**361,857**
Carrying amount at 31/12 2019	**1,109,933**	**269,964**	**183,940**	**82,551**	**1,646,388**

The management performs an impairment test of the carrying amount of goodwill at least annually and more frequently if there are indicators of impairment. In the review of other non-current assets there were no evidence of impairment.

The annual impairment test is performed on 31 December 2019.

The recoverable amount of goodwill related to the individual cash generating units are calculated based on the Capital Asset Pricing Model (CAPM model)

The impairment test as of 31 December 2019 showed no indication of impairment for 2019. Management believes that currently no changes in the key assumptions are reasonable likely to reduce the headroom to zero in the CGU's.

Notes to the Consolidated Financial Statements

13. Intangible assets (continued)

The definition of CGU's in the impairment test is based on the certainty by which the carrying amount of the intangible assets can reasonably be allocated and monitored. The impairment test is based on the CGU "Processing equipment for red meat slaughter houses".

Key assumptions

The recoverable amount of the individual cash-generating unit to which the goodwill amounts to, is calculated based on the calculations of capital value. The most significant uncertainties are connected to the determination of discount rates, growth rates and expected changes in costs in the budget and terminal periods.

Assumptions used in the calculation is an EBIT margin of 4.9 percent in 2020 and a long-term EBIT margin of 12-18 percent.

Management determines the expected annual growth in the budget period and the expected margins based on historical experience and assumptions of expected market developments.

Growth is supported by a rising world population, increasing urbanisation, growing wealth and increasing demand for food well-being and food safety. The group companies have a potential to grow in both their core markets as well as in other markets where other group companies are located.

The discount rate has been revised for the CGU to reflect the latest market assumptions for the risk free rate based on a 10-year government bond, the equity risk premium and the cost of debt.

The long-term growth rate is based on business plans expected growth rates

	Annual average growth rate in budget period	Growth rate in terminal period	Discount rate after tax	Discount rate before tax
Cash generating unit				
Processing equipment for red meat				
Slaughterhouses	5-20%	2	8.6%	10.6%

Notes to the Consolidated Financial Statements

13. Intangible assets (continued)

A sensibility analysis has been made of the main assumptions in the impairment test to identify the lowest and/or highest discount rate and the lowest growth rate for each cash generating unit. The sensibility analysis shows no indications of impairment.

Completed development projects and development projects in progress are own developed R&D.

14. Property, plant and equipment

DKK´000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Total
Balance at 1/1 2018	133,036	21,221	20,434	174,691
Acquisitions during the year	58,372	6,323	2,196	66,891
Exchange rate adjustments	(1,088)	(453)	(139)	(1,680)
Additions in the year	(274)	542	(1,765)	(1,497)
Transfer	4,914	8,946	4,885	18,745
Disposals in the year	(51,909)	(1,261)	(1,801)	(54,971)
Cost at 31/12 2018	**143,051**	**35,318**	**23,810**	**202,179**
Depreciation and write-downs				
Balance at 1/1 2018	9,318	5,154	5,680	20,152
Exchange rate adjustment	(70)	(111)	(46)	(227)
Transfer	(129)	120	(366)	(366)
Depreciation in the year	8,570	4,902	5,512	18,984
Accumulated depreciation and write-downs of disposals	(5,593)	(378)	(1,300)	(7,271)
Depreciation and write-downs at 31/12 2018	**12,105**	**9,687**	**9,480**	**31,272**
Carrying amount at 31/12 2018	**130,946**	**25,631**	**14,330**	**170,907**

Notes to the Consolidated Financial Statements

14. Property, plant and equipment (continued)

DKK´000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Total
Balance at 1/1 2019	143,051	35,318	23,810	202,179
Acquisitions during the year	54	13	506	573
Exchange rate adjustments	1,955	2,266	476	4,697
Additions in the year	554	5,767	177	6,498
Transfer	11,395	13,772	6,691	31,858
Disposals in the year	(252)	(4,006)	(3,021)	(7,279)
Cost at 31/12 2019	**156,757**	**53,130**	**28,639**	**238,526**
Depreciation and write-downs				
Balance at 1/1 2019	12,105	9,687	9,480	31,272
Exchange rate adjustment	210	1,214	235	1,659
Transfer	122	6,053	(45)	6,130
Depreciation in the year	7,454	6,025	5,710	19,189
Accumulated depreciation and write-downs of disposals	(207)	(3,145)	(1,901)	(5,253)
Depreciation and write-downs at 31/12 2019	**19,684**	**19,834**	**13,479**	**52,997**
Carrying amount at 31/12 2019	**137,073**	**33,296**	**15,160**	**185,529**

Notes to the Consolidated Financial Statements

15. Right-of-use assets

DKK´000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Total
Initial recognition at 1/1 2018	29,044	963	8,220	38,227
Additions in the year	6,016	-	4,176	10,192
Depreciation in the year	(7,379)	(422)	(3,960)	(11,761)
Balance at 31/12 2018	**27,681**	**541**	**8,436**	**36,658**

DKK´000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Total
Balance at 1/1 2019	27,681	541	8,436	36,658
Exchange rate adjustment	302	1	21	324
Additions in the year	23,578	-	6,015	29,593
Re-measurement of leasing debt	(742)	-	(701)	(1,443)
Depreciation in the year	(12,388)	(409)	(4,328)	(17,125)
Balance at 31/12 2019	**38,431**	**133**	**9,443**	**48,007**

The Group leases several assets including building and cars. The lease terms range from 1 to 3 years for cars and 2 to indefinite for buildings.

Managements estimate for the expected use of right-of-use assets with no defined expiry date a range of 1½ to 5 years was applied.

Leases does not include variable lease payments.

Approximately one third of the leases for cars expired in the current financial year. The expired contracts were replaced with new leases for identical underlying assets.

This resulted in additions to right-of-use assets of DKK 2.7 million.

Notes to the Consolidated Financial Statements

15. Right-of-use assets (continued)

New leases for property in Kolding, Sibiu and Rijssen amounts for 2/3 of the addition in the year.

Amounts recognised in profit and loss

	2019 DKK'000	2018 DKK'000
Depreciation expense on right-of-use assets	17,125	11,761
Interest expense on lease liabilities	1,952	1,203
	19,077	**12,964**

The total cash outflow for leases amounts to DKK 18.4 million for the Frontmatec Group and DKK 0 million for the Parent Company.

16. Investments in associates

Associates
Assesorament Industrial Robotica I Automaticacio S.L. (Aira)

Principal activity	Legal Form	Domicile	Voting rights and ownership
Development and sales of Robotic solutions for the meat industry	S.L.	Cardona, Spain	40%

Investments in associates is accounted for using the equity method in these consolidated financial statements as set out in the Group's accounting policies in note 2.

Dividends received from associates below represent the actual amounts attributable and hence received by the Group. The other summary information that precedes the reconciliation to the Group's carrying amount represents amounts included in the IFRS financial statements of the associate, not the entity's share of these amounts, although they are adjusted to reflect fair value adjustments upon acquisition or accounting policy alignments.

Notes to the Consolidated Financial Statements

16. Investments in associates (continued)

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information below represents amounts in associates' financial statements prepared in accordance with IFRS Standards (adjusted by the Group for equity accounting purposes).

Associate

	2019 DKK'000
Current assets	58,820
Non-current assets	11,570
Current liabilities	(24,934)
Non-current liabilities	(3,866)
Equity attributable to owners of the company	**41,590**
Non-controlling interest	(24,954)
Controlling interest in associate	**16,636**
Revenue	81,744
Profit for the year	33,412
Comprehensive income attributable to other owners of the company	(20,051)
Total comprehensive income	**13,361**
Dividends received from the associate during the year	-

Reconciliation of the above summarised financial information to the carrying amount of the interest in Aira recognised in the consolidated financial statements.

	2019 DKK'000
Proportion of the Group's ownership interest in the associate	16,636
Goodwill	23,656
Carrying amount of the Group's interest in the associate	**40,292**

Notes to the Consolidated Financial Statements

17. Inventories

	2019 DKK'000	2018 DKK'000
Raw materials and consumables	100,509	89,589
Work in progress	24,113	29,598
Manufactured goods and goods for resale	73,182	64,849
Inventories	**197,804**	**184,036**

The cost of inventories recognised as an expense includes DKK 8.8 million (2018: DKK 6.2 million) in respect of writedowns of inventory to net realisable value.

18. Trade receivables

	2019 DKK'000	2018 DKK'000
Write down at 1 January	3,376	3,226
Acquired write downs	159	427
Foreign exchange adjustments	93	6
Addition	7,464	662
Reversals/realised	(1,621)	(945)
Write down at 31 December	**9,471**	**3,376**

The credit period is between 8-60 days. No interest is charged on outstanding trade receivables. The Group always measures the loss allowance for trade receivables at an amount equal to lifetime expected credit loss. Expected credit losses on trade receivables are estimated based on past default experience of the debtor and an analysis of the debtor's current financial position, adjusted for factors that are specific to the debtors, general economic conditions of the industry and an assessment of both the current as well as the forecast direction of conditions at the reporting date.

Historical losses are fairly limited since the majority of trade receivables relate to projects where prepayments are received.

Notes to the Consolidated Financial Statements

19. Contract assets

	2019 DKK'000	2018 DKK'000
Reconciliation of contractual assets and liabilities		
Contractual assets		
Receivables from trade ref. Note 18	262,723	260,889
Constrution contracts	168,855	126,407
	431,578	**387,296**
Contractual liabilities		
Construction contracts	(142,272)	(234,197)
	(142,272)	**(234,197)**

Recorded revenue related to contracts

Contracts (assets) with customers include sales value of work performed where the Group has not yet obtained an unconditional right to payment since the work has not been compleeted in full and thereby accepted by the customer.

Contracts (liabilities) include unconditioned prepayments for work not yet performed. The liabilities as pr. 1 January 2019 of DKK 234.2 million (2018: DKK 148.1 million) have been recognised as revenue in 2019 and 2018 respectively.

Significant changes in contractual assets and liabilities

The change in contractual assets and contractual liabilities are driven by changed mix in project phases.

Not satisfied performance obligations related to construction contracts

In accordance with IFRS 15.121 the Group does not disclose information on not-satisfied performance obligations since the construction contracts have an activity range of less than one year.

	2019 DKK'000	2018 DKK'000
20. Construction contracts		
Selling price of work performed	1,345,973	1,254,212
Progress billings	(1,319,390)	(1,362,002)
	26,583	**(107,790)**
Recognised as follows:		
Contracts assets	168,855	126,407
Contract liabilities	(142,272)	(234,197)
	26,583	**(107,790)**

Notes to the Consolidated Financial Statements

	2019 DKK'000	2018 DKK'000
21. Deferred tax		
Deferred tax relates to:		
Intangible assets	(119,131)	(129,364)
Property, plant and equipment	4,365	4,985
Current assets	(36,558)	(16,102)
Liabilities	4,882	6,765
Tax loss carryforwards	59,006	51,255
	(87,436)	**(82,461)**
Recognised as follows:		
Deferred tax assets	31,226	48,494
Deferred tax liability	(118,662)	(130,955)
	(87,436)	**(82,461)**

Carry forward losses are recognized based on the expected utilization within 3-5 years.
Losses of DKK 12.4 million are subject to expiry if not utilized before 2022.

22. Share capital

The Parent Company´s share capital, DKK 100 thousand is composed of shares of DKK 0.01 or multiple hereof.

Notes to the Consolidated Financial Statements

23. Long-term liabilities

Breakdown of certain liabilities according to long-term and short-term liabilities:

DKK´000	Due between 1 and 5 years	Due after more than 5 years	Total long-term liabilities at 31/12 2018	Due within 1 year	Total at 31/12 2018
Mortgage debt	4,484	5,172	9,656	1,122	10,778
Other credit institutions	153,030	520,000	673,030	32,298	705,328
Lease liabilities	23,773	-	23,773	13,154	36,927
Total	**181,287**	**525,172**	**706,459**	**46,574**	**753,033**

DKK´000	Due between 1 and 5 years	Due after more than 5 years	Total long-term liabilities at 31/12 2019	Due within 1 year	Total at 31/12 2019
Mortgage debt	4,502	4,026	8,528	1,128	9,656
Other credit institutions	1,285,722	-	1,285,722	1,731	1,287,453
Lease liabilities	32,288	1,552	33,840	14,932	48,772
Total	**1,322,512**	**5,578**	**1,328,090**	**17,791**	**1,345,881**

At 31 December 2019 the contractual cash flow on mortgage debt is DKK 1,123 million, other credit institutions is positive by DKK 581,216 thousand.

The fair value is calculated as the present value of agreed cash flows using a current market-based interest rate.

In October 2019, Frontmatec Group completed a refinancing of existing senior and junior debt facilities through the issuance of a EUR 175m five year Nordic bond (to be listed on OMXNasdaq in 2020) and a EUR 47m SSRCF from existing senior banks.

The Group does not face a significant liquidity risk with regard to its lease liabilities. Lease liabilities are monitored within the Group's central finance function.

	2019 DKK'000	2018 DKK'000
24. Provisions		
Warranties at 1 January	10,570	16,596
Exchange rate adjustments	334	(248)
Utilised during the year	(11,272)	(9,093)
Reversal	(105)	-
Provision for the year	13,326	3,315
Warranties at 31 December	**12,853**	**10,570**

Notes to the Consolidated Financial Statements

25. Security for loans and contingent liabilities

The shares in Frontmatec Kolding A/S, Frontmatec Tandslet A/S, Frontmatec Skive A/S, Frontmatec Hygiene GmbH, Frontmatec Equipements Inc, Frontmatec Inc, and Frontmatec GmbH are held as security for all bank debt.

As security for mortgage loan of DKK 9.7 million, mortgage is granted on the land and buildings at a book value of DKK 36.4 million with an owner's mortgage secured on the property Mommarkvej 293-301, Tandslet of DKK 5.5 million, Hassellunden 9, Smørum DKK 6.2 million and owners´s mortage with security in the property Hassellunden 9, Smørum of DKK 1,2 million.

As security for all bank loan floating mortgage deed over chattels is granted by Frontmatec Tandslet A/S DKK 37.7 million, Frontmatec Smørum A/S DKK 3.0 million and Frontmatec Kolding A/S DKK 15.0 million.

Furthermore, the Group has issued a negative pledge towards the bank.

Frontmatec Group ApS, Frontmatec Kolding A/S, Frontmatec Tandslet A/S, Frontmatec GmbH, Frontmatec Hygiene GmbH, Frontmatec Equipements Inc, and Frontmatec Inc have issued a guarantee of payment for all bank debt.

Prepayment guarantees and performance bonds provided to customers amount to DKK 85.2 million.

The Group's Danish companies are jointly and severally liable for tax on consolidated taxable income etc. The total amount of corporation tax payable is disclosed in the annual report of Frontmatec Holding III ApS, which is the administration company for joint taxation.

Furthermore, the Group's Danish companies are jointly and severally liable for Danish withholding taxes on dividends, royalties and interest. Any subsequent changes to corporation taxes and withholding taxes may render the Company liable for a greater amount.

Notes to the Consolidated Financial Statements

26. Financial risks

The company's financial risks comprise currency, interest, and price risks. Management identifies the level and concentration of risks and initiates policies to address these through continuous business reviews. The company is also exposed to liquidity and credit risks. It is the company's policy not to engage in any active speculation in financial risks.

Currency risk

The company's currency risk derives from the impact of exchange rates on future commercial payments and financial payments. Most of the company's revenue is order-based and consists mainly of sales in the functional currency used by the individual company. The company enters into forward contracts no later than when sales contract becomes effective.

Production costs typically consist of internal costs and procurement in the company's functional currency and other currencies.

The Group's main currencies for commercial purposes are DKK, EUR, USD, CAD, CNY, GBP and RUB.

An increase of 5 percent in a given exchange rate against Danish Kroner would in 2019 have had the following impact on the profit for the year and equity.

DKK'000	**EUR**	**USD**	**CAD**	**CNY**	**GBP**	**RUB**
Profit/(loss)	(63,611)	1,805	2,608	(1,209)	315	60
Equity	(58,768)	4,810	4,236	(2,762)	1,757	59

The currency exposures arising from financial instruments; thus the analysis does not include the hedged commercial transactions.

Interest risk

Interest rate risks concern the interest-bearing financial assets and liabilities of the company. The interest-bearing financial assets consist primarily of cash in financial institutions and the interest-bearing liabilities mainly consist of corporate bonds, bank and mortgage debt. Interest rate risks occur when interest rate levels change. A 1% increase in the interest rate will have a DKK 13.5 million effect on the company's interest costs. The Group has entered into an interest swap to minimize the interest risk.

Notes to the Consolidated Financial Statements

26. Financial risks (continued)

Price risk

The company has a low price risk on procurement and sales. The possibilities to apply price adjustments to the sales prices depend partly on the market situation. Price changes can therefore affect the profit/loss both upwards and downwards. It is company policy not to enter into long-term price agreements with neither customers nor vendors.

Liquidity risk

The purpose of the company's cash management is to ensure that the company at all times has sufficient and flexible financial resources at its disposal and is able to honour its obligations when due. The company's liquidity reserves consist of credit balances and fixed overdraft facilities.

Credit risk

Financial counterpart risk

The use of financial instruments entails the risk that the counterparty may not be able to honour its obligations. The company minimizes risk by limiting its use of financial institutions to those with an acceptable credit rating.

Commercial credit risk

The credit risk incurred from trade receivables is generally managed by continuous credit evaluation of customers and trading partners. Credit risks on counterparties other than banks are minimized through the use of export letters of credit, prepayments.

The maximum credit risk relates to financial assets corresponds to the accounting value plus write-downs.

27. Derivatives

Fair value hedge

To minimize the foreign currency exposure arising from intercompany balances, the company uses forward exchange contracts. The change in fair value is specified below

	2019 DKK'000	2018 DKK'000
Fair value	(7,424)	(8,538)
Included in the income statement	(7,424)	(8,009)

Notes to the Consolidated Financial Statements

27. Derivatives (continued)

The contract notional amount on the forward exchange contracts are

	2019 DKK'000	2018 DKK'000
DKK/USD	(62,456)	(48,384)
DKK/GBP	(3,747)	(3,309)
DKK/CAD	(29,019)	(121,999)
CNH/DKK	106,636	96,996

Cash-flow hedge

To minimize the foreign currency exposure arising from future cash transactions and to minimize the interest fluctuations on long-term liabilities, the company uses forward exchange contracts and interest rate caps. The change in fair value is specified below

	2019 DKK'000	2018 DKK'000
Fair value	(6,947)	(7,469)
Included in the income statement	(307)	(1,839)

Cash-flow hedge

The contract notional amounts on the forward exchange contracts are

	2019 DKK'000	2018 DKK'000
AUD/DKK	38,339	52,106
USD/DKK	3,688	16,430
USD/CAD	-	55,274

Expected recognition for the hedges are in 2020.

The conditions on the interest rate caps are

	2019 DKK'000	2018 DKK'000
Principal amount	871,328	436,590
Strike	0%	0%
Expire	10-10-2022	30-12-2021

At 31 December 2019 the fair value of the Group's hedge instruments amounted to DKK -14.4m (2018 DKK -16.0m)

Notes to the Consolidated Financial Statements

28. Related party disclosures
Frontmatec Holding II ApS has controlling interest in Frontmatec Holding I ApS.

Related parties with significant influence consist of the Company's Board of Directors and Executive Board plus close relatives of these persons.
Related parties also include companies on which these persons exert considerable influence.

Transactions between the consolidated group enterprises are eliminated in the consolidated financial statements. In 2019 there were no transactions between related parties not part of the Group apart from transactions mentioned below and in notes 6 and 32.

Christoffer Arthur Müller is member of the executive board of Müller Gas Equipment with which the Group has a MES contract. The Group has also performed various PLC programming etc. during 2019. These transactions take place at arm's length and amounted to a total of DKK 0.4 million in 2019 (2018: 0.6 million). The outstanding amount of purchases at 31 December 2019 amounted to DKK 6.8 million (2018: DKK 0.3 million).

Ownership
The following shareholders are registered in the company's register of shareholders as holding minimum 5 percent voting rights or minimum 5% of the share capital:

Frontmatec Holding II ApS, Platinvej 8, 6000 Kolding

29. Board of Directors and Executive Board

Frontmatec Holding I ApS´ Board of Directors and Executive Board hold other executive positions as described below.

	Executive positions
Christian Gymos Schmidt-Jacobsen	CEO Spero Invest ApS
	Member of the supervisory board Axcel GP Fonden
	Member of the supervisory board Axcel V GP ApS
	Member of the supervisory board Axcel VI GP ApS
	Chairman of the supervisory board Frontmatec Holding I ApS
	Chairman of the supervisory board Frontmatec Holding II ApS
	Chairman of the supervisory board Frontmatec Holding III ApS
	Chairman of the supervisory board AX V INV7 Holding III ApS
	Chairman of the supervisory board AX V INV8 Holding III ApS
	Chairman of the supervisory board AX INV7 Holding ApS
	Chairman of the supervisory board AX V INV8 Holding ApS
	CEO and member of the supervisory board Axcel Management A/S
	CEO and member of the supervisory board Axcel management Holding

	APS
Jesper Frydensberg Rasmussen	CEO, JNP AX-III INV ApS
	CEO, MNGT2 ApS
	CEO, JEBA Invest ApS
	CEO, AX MITA INVEST ApS
	Member of the supervisory board Frontmatec Holding III ApS
	Member of the supervisory board Frontmatec Holding II ApS
	Member of the supervisory board Frontmatec Holding I ApS
	CEO, AX V Nissens III ApS
	CEO AX V Nissens II ApS
	CEO, AX V Nissens I ApS
	CEO, Mountain Top Holding III ApS
	CEO, Mountain Top Holding II ApS
	CEO, Mountain Top Holding I ApS
	CEO, AX V GUBI Holding III ApS
	CEO, AX V INV5 Holding III ApS
	CEO, AX V INV5 Holding II ApS
	CEO, AX V INV5 Holding I ApS
	CEO AX V INV5 Holding ApS
	CEO and member of the supervisory board AX V INV7 Holding III ApS
	CEO AX V Phase One Holding III ApS
	CEO AX V Phase One Holding I ApS
	CEO, AX V ESB Holding III ApS
	CEO, Phase One Group ApS
	CEO AX V INV8 Holding ApS
	CEO and member of the supervisory board, AX V INV8 Holding III ApS
	Member of the supervisory board AX V INV8 Holding ApS
	CEO and member of the supervisory board, AX V INV7 Holding ApS
	Isadora Holding III AB
	Isadora Holding II AB
	Isadora Holding I AB
	Loopia Holding III AB
	Loopia Holding II AB
	Loopia Holding I AB
	Loopia Group AB
	AX V INV3 Holding III AB
	AX V INV3 Holding II AB
	AX V INV3 Holding I AB
	AX V INV3 Holding AB
Peter Nyegaard	Chairman of the supervisory board FIH A/S
	Member of the supervisory board ØENS MURERFIRMA A/S
	CEO JNP AX-III INV ApS
	Vice chairman of the supervisory board DANMARKS SKIBSKREDIT A/S
	Member of the supervisory board MNGT2 ApS

Member of the supervisory board Axcel Management Holding ApS
Chairman of the supervisory board FIH Holding A/S
Member of the supervisory board AX MITA INVEST ApS
Member of the supervisory board Frontmatec Holding III ApS
Member of the supervisory board Frontmatec Holding II ApS
Member of the supervisory board Frontmatec Holding I ApS
Member of the supervisory board AX IV HoldCo P/S
CEO, Yggdrasil ApS
Member of the supervisory board AX V Nissens III ApS
Member of the supervisory board Mountain Top Holding III ApS
Member of the supervisory board Mountain Top Holding II ApS
Member of the supervisory board Mountain Top Holding I ApS
Member of the supervisory board AX V GUBI Holding III ApS
Member of the supervisory board AX V INV5 Holding III ApS
Member of the supervisory board AX V INV5 Holding II ApS
Member of the supervisory board AX V INV5 Holding I ApS
Member of the supervisory board AX V INV5 Holding ApS
Member of the supervisory board AX V INV7 Holding III ApS
Member of the supervisory board AX V INV7 Holding ApS
Member of the supervisory board AX V ESB Holding III ApS
Member of the supervisory board AX V Phase One Holding III ApS
Member of the supervisory board AX V Phase One Holding II ApS
Member of the supervisory board AX V Phase One Holding I ApS
Member of the supervisory board AX V INV8 Holding III ApS
Member of the supervisory board AX V INV8 Holding ApS
Aidian Oy
Ax DEL Oy
AX V INV1 Holding III Oy
AX V INV1 Holding II Oy
AX V INV1 Holding I Oy
AX V INV1 Holding Oy
Isadora Holding III AB
Isadora Holding II AB
Isadora Holding I AB
Loopia Holding III AB
Loopia Holding II AB
Loopia Holding I AB
Loopia Group AB
Axcel Management AB
AX V INV3 Holding III AB
AX V INV3 Holding II AB
AX V INV3 Holding I AB
AX V INV3 Holding AB

Christoffer Arthur Müller	CEO Frontmatec Holding I ApS CEO Frontmatec Holding II ApS CEO Frontmatec Holding III ApS CEO Müller-Scheibye Invest ApS CEO Mopani ApS Chairman of the supervisory board Mountain Top Holding III ApS Chairman of the supervisory board Mountain Top Holding II ApS Chairman of the supervisory board Mountain Top Holding I ApS Member of the supervisory board Mountain Top Group ApS Member of the supervisory board Mountain Top (Denmark) ApS Member of the supervisory board Brødrene Müller Holding A/S Member of the supervisory board Müller Gas Equipment A/S

30. Fees paid to auditors appointed at the annual general meeting

	2019 DKK'000	2018 DKK'000
Total fees to Deloitte		
Fee for statutory audit	893	853
Other assurance engagements	-	-
Fee for tax advice	1,269	282
Fee for non-audit services	8,171	531
	10,333	**1,666**
Total fees to other auditors:		
Fee for statutory audit	459	405
Other assurance engagements	-	-
Fee for tax advice	466	434
Fee for non-audit services	1,312	783
	2,237	**1,622**

The increase in non-audit fees is related to M&A activities which have been included as special items.

Notes to the Consolidated Financial Statements

31. Standards and interpretations that have not yet come into force

Standards and interpretations which have not been approved for use in the EU and have therefore not yet come into force

At the time of releasing this Annual Report, the following new or amended standards and interpretations were not incorporated in the Annual Report as they were not in force and not approved for use in the EU:

Standard	Description
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 9 and IFRS 7	Interest rate benchmark reform
Amendments to IAS 1 and IAS 8	Definition of material

The new standards and amendments are not expected to have a material impact on the financial statements of the Group in future periods.

32. Incentive programs

A number of key employees in the Group have been granted options to purchase shares in Frontmatec Holding II ApS at a set strike price.

The program, which can only be exercised by purchasing the shares in question, grants the right to acquire a number of shares in Frontmatec Holding II ApS at a price agreed in advance. The warrant program is contingent on employment in the Company.

The value of the allotted warrants in 2019 is DKK 1.8 million. The value of exercised warrants in 2019 is DKK 0 million. The value of divested warrants in 2019 is 2.3 million. The total value of the allotted warrants as of 31 December 2019 are DKK 18.7 million. The cost is booked as staff costs.

The fair value of the warrants allocated is estimated by means of the Monte Carlo simulations. The value is calculated under the following assumptions:

Estimated volatility (based on a view of peer companies)	25%
Risk free interest	0%
Market value at the time of establishment	DKK 12.3m
Expiry (number of years)	2.67

Notes to the Consolidated Financial Statements

32. Incentive programs (continued)

Every A1 warrant grants the right to buy 1 share in Frontmatec Holding II ApS with a nominal value of 0.01 at a rate of DKK 0.01 at the exit date.

Every A2 warrant grants the right to buy 1 share in Frontmatec Holding II ApS with a nominal value of 0.01 at a rate of DKK 10–12.9 + 8 % p.a..

Every B warrant grants the right to buy 1 share in Frontmatec Holding II ApS with a nominal value of 0.01 at a rate of DKK 10-12.9 + 16 % p.a..

The participants may exercise their warrants in the below periods and in the event of exit.

Issued	**Exercise period one**	**Exercise period two**
Sep-2016 to Dec- 2017	1 October 2021 to 1 November 2021	1 October 2023 to 1 November 2023
Aug-2018	1 August 2023 to 1 September 2023	1 August 2025 to 1 September 2025
Mar-2019	1 October 2023 to 1 November 2023	1 October 2025 to 1 November 2025
Jan-2020	1 Januar 2025 to 1 February 2025	1 January 2027 to 1 February 2027
Feb-2020	1 February 2025 to 1 March 2025	1 February 2027 to 1 March 2027
Feb-2020	1 April 2025 to 1 May 2025	1 April 2027 to 1 May 2027

Number of warrants	**A1 warrants**	**A2 warrants**	**B warrants**
1 January 2019	258,500	2,703,553	1,351,777
Allotted in 2019	-	1,184,580	595,520
Divested in 2019	-	(491,667)	(245,833)
31 December 2019	**258,500**	**3,396,466**	**1,701,464**

Notes to the Consolidated Financial Statements

33. Business combinations

Acquisition of companies in 2019

During 2019, the Group acquired Industrial Técnico Alimentaria, S.A.

Principal activity	Date of control	Voting rights and ownership
Equipment provider in red meat industry	19/03/2019	100%

Financial performance in 2019 of the acquired entity

	DKK'000
Turnover 2019	51,176
Turnover included in the consolidated financial statements	39,568
Profit 2019	5,221
Profit included in the consolidated financial statements	3,456

Part of the consideration DKK 9 million is contingent based on the entity's ability to reach certain EBIT earnings measures for the years 2019-2021.

The acquisition of Industrial Técnico Alimentaria, S.A. will further strengthen Frontmatec's global position as the number one provider of advanced processing equipment and will significantly strengthen the position within distribution and the Spanish market.

	DKK'000
Other acquired intangibles	18,836
Total intangible assets	**18,836**
Property, plant and equipment	572
Inventory	6,383
Other short-term receivables	12,578
Bank	7,074
Long-term debt	(46)
Deferred tax	(5,042)
Other short-term debt	(9,063)
Net assets acquired	**31,292**
Goodwill	9,478
Total consideration	**40,770**

Notes to the Consolidated Financial Statements

33. Business combinations (continued)

After recognition of identifiable assets and liabilities at fair value, goodwill in relation to the acquisitions was assessed at DKK 9.5m. The goodwill represents the value of assets where the fair value cannot be measured reliably, the value of the acquired staff and knowhow, expected synergies from the merger of acquired companies and the existing activities in Frontmatec as well as the value of access to new markets.

34. Reconciliation of financing activities

	2018	Cash flows	Acquisi-tions	FX mo-vement	2019
Long-term borrowings	716,106	581,003	-	-	1,297,109
Short-term borrowings	-	-	-	-	-
Long-term credit institutions	-	-	-	-	-
Short-term credit institutions	155,408	-37,051	-	-	118,357
Total liabilities from financing activities	**871,514**	**543,952**	**-**	**-**	**1,415,466**

	2017	Cash flows	Acquisi-tions	FX move-ment	2018
Long-term borrowings	752,951	(36,845)	-	-	716,106
Short term borrowings	-	-	-	-	-
Long term credit institutions	-	-	-	-	-
Short term credit institutions	68,910	(36,634)	123,132	(0.4)	155,408
Total Liabilities from financing activities	**821,861**	**(73,479)**	**123,132**	**(0.4)**	**871,514**

35. Events after the balance sheet date

COVID-19 Virus

From late January 2020, our Chinese market and local operations has been severely impacted by the outbreak of the COVID-19 virus. Regardless, the Frontmatec Group delivered according to budget in January and March 2020.

From the mid-March 2020, the outbreak of the COVID-19 virus has started to impact all of our main markets. For the most part, our customers are operating at normal capacity, due to being critical to the food supply chain, why we continue to see a good underlying demand for our product and services. However, internal measures taken to ensure employee safety and the extensive travel restrictions imposed are especially challenging to our service and installation business, which will impact short-term performance. At the same time, we see customers increasingly focusing on ensuring business continuity, why larger projects could be postponed, which will also impact short-term performance. Long-term we do not see a risk with respect to the larger projects, and the Frontmatec Group is well positioned, due to our leading technology platform.

Notes to the Consolidated Financial Statements

35. Events after the balance sheet date (continued)

Other business units like Stunning and Controls Systems (software) are currently not impacted by the outbreak of the COVID-19 virus, and our Hygiene business unit is positively impacted, due to increased focus on hygiene and food safety in general at our customers and related industries.

To mitigate the impact of the outbreak of COVID-19 virus on short-term performance, the Frontmatec Group has implemented a range of initiatives to boost sales, reduce costs and improve liquidity. Public COVID-19 virus support programs are also utilised, where relevant and applicable.

Other events after the balance sheet date

Other than what has been described above regarding COVID-19 virus, there have been no events since 31 December 2019, which could significantly affect the evaluation of the Group's financial position and revenue.

Parent Income Statement 1 January – 31 December

	Note	2019 DKK'000	2018 DKK'000
External costs		(72)	(29)
Operating profit before depreciations		**(72)**	**(29)**
Operating loss		**(72)**	**(29)**
Other financial income	1	292,860	-
Other financial expenses	2	(3)	-
Profit/loss before tax		**292,785**	**(29)**
Tax for the year	3	18	(19)
Profit/loss for the year		**292,803**	**(48)**

Statement of Comprehensive income

	2019 DKK'000	2018 DKK'000
Profit/loss for the year	292,803	(48)
Items that are or may be reclassified subsequently to profit or loss:		
Unrealised loss on forward exchange contracts for the year	-	-
Unrealized gain on forward exchange contracts transferred to profit and loss	-	-
Other comprehensive income for the year after tax	**-**	**-**
Comprehensive income for the year	**292,803**	**(48)**

Parent Company Statement of Financial Position

Assets	Note	31.12. 2019 DKK'000	31.12. 2018 DKK'000
Investment in subsidiaries	4	1,165,786	1,165,786
Deferred tax assets		41	26
Investments		**1,165,827**	**1,165,812**
Non-current assets		**1,165,827**	**1,165,812**
Amounts owed by group entities		-	5
Receivables		**-**	**5**
Cash at bank and in hand		**33**	**34**
Current assets		**33**	**39**
Assets		**1,165,860**	**1,165,851**

Parent Company Statement of Financial Position

Equity and liabilities	Note	31.12. 2019 DKK'000	31.12. 2018 DKK'000
Share capital	6	100	100
Retained earnings		1,165,624	1,165,681
Equity		**1,165,724**	**1,165,781**
Amounts owed to group entities		91	43
Other payables		45	27
Current liabilities		**136**	**70**
Liabilities		**136**	**70**
Equity and liabilities		**1,165,860**	**1,165,851**

Parent Company Statement of Changes in Equity
1 January – 31 December

	Share capital DKK'000	Retained earnings DKK'000	Total DKK'000
Equity at 1 January 2018	100	1,062,729	1,062,829
Loss for the year	-	(48)	(48)
Comprehensive income for the year in total	**-**	**(48)**	**(48)**
Capital contribution	-	103,000	103,000
Equity at 31 December 2018	**100**	**1,165,681**	**1,165,781**
Equity at 1 January 2019	100	1,165,681	1,165,781
Profit for the year	-	292,803	292,803
Paid dividend	-	(292,860)	(292,860)
Comprehensive income for the year in total	**-**	**(57)**	**(57)**
Equity at 31 December 2019	**100**	**1,165,624**	**1,165,724**

Parent Company Cash Flow Statement

	Note	2019 DKK'000	2018 DKK'000
EBIT		(72)	(29)
Changes in receivables		5	10
Changes in trade payables		-	-
Change in other working capital		66	(34)
Financial income		292,860	-
Financial cost		(3)	-
Tax for the year		3	(11)
Cash flows from operating activities		**292,859**	**(64)**
Addition of investments		-	(103,000)
Capital movement		(292,860)	103,000
Cash flows from investing activities		**(292,860)**	**-**
Cash flows from financing activities		**-**	**-**
Net cash flows for the year		**(1)**	**(64)**
Cash and cash equivalents 1 January		34	98
Cash and cash equivalents at 31 December		**33**	**34**

Notes to Parent Company Financial Statements

1. Financial income

	2019 DKK'000	2018 DKK´000
Dividends	292,860	-
	292,860	**-**

2. Other financial expenses

	2019 DKK'000	2018 DKK´000
Interest expense from subsidiaries	2	-
Interest expense, exchange rate gains and similar expenses	1	-
	3	**-**

3. Tax for the year

	2019 DKK'000	2018 DKK´000
Current tax for last year	-	26
Changes in provision for deferred tax	(18)	(7)
	(18)	**19**
Specified as follows:		
Tax for the year	(17)	(7)
Tax for last year	(1)	26
	(18)	**19**
Reconciliation of tax rate:		
Tax according to Danish tax rate	64,413	(7)
Non-taxable income and non-deductible costs	(64,429)	-
Adjustments of current tax regarding previous years	(1)	26
	(18)	**19**
Effective tax rate (%)	0.0	(65.5)

Notes to Parent Company Financial Statements

4. Investments in subsidiaries

	2019 DKK'000	2018 DKK´000
Cost at 1 January 2019	1,165,786	1,062,786
Addition of entities	-	103,000
Cost at 31 December 2018	**1,165,786**	**1,165,786**
Carrying amount at 31 December	**1,165,786**	**1,165,786**

Investment in subsidiaries are specified as follows:

Subsidiaries	Legal form	Domicile	Voting rights and ownership
Frontmatec Group	ApS	Kolding, Denmark	100

The management performs an impairment test of the carrying amount of investments in subsidiaries at least annually and more frequently if there are indicators of impairment. The annual impairment test is performed on 31 December 2019.

The recoverable amount of investments related to the individual cash generating units are calculated based on the Capital Asset Pricing Model (CAPM model)

The impairment test as at 31 December 2019 showed no indication of impairment for 2019. Management beleives that currently no changes in the key assumptions are reasonable likely to reduce the headroom to zero in any of the CGU's.

The definition of CGU's in the impairment test is based on the certainty by which the carrying amount of the intangible assets can reasonably be allocated and monitored.
The impairment test is based on the CGU "Processing equipment for read meat slaughter houses".

Key assumptions

The recoverable amount of the individual cash-generating units to which the investment amounts to, is calculated based on the calculations of capital value. The most significant uncertainties are connected to the determination of discount rates, growth rates and expected changes in costs in the budget and terminal periods.

Notes to Parent Company Financial Statements

Assumptions used in the calculation is an EBIT margin of 4.9 percent in 2020 and a long-term EBIT margin of 12-18 percent.

Management determines the expected annual growth in the budget period and the expected margins based on histrorical experience and assuptions of expected market developments.

Growth is supported by a rising world population, increasing urbanisation, growing wealth and increasing demand for food well-being and food safty. The two companies have a potential to grow in both their core markets as well as in other markets where other group companies are located.

The discount rate has been revised for each CGU to reflect the latest market assumptions for the risk free rate based on a 10-year government bond, the equity risk premium and the cost of debt.

The long term growth rate is based on business plans expected growth rates

	Annual average growth rate in budget period	Growth rate in terminal period	Discount rate after tax	Discount rate before tax
Cash generating unit				
Processing equipment for red meat				
Slaughterhouses	5-20%	2	8.6%	10.6%

A sensability analysis has been made of the main assumptions in the impairment test to identify the lowest and/or higest discount rate and the lowest growth rate for each cash generating unit. The sensability analysis shows no indications of impairment.

5. Deferred tax

	2019 DKK'000	2018 DKK'000
Tax loss carry forward	41	26
Deferred tax at 31 December	**41**	**26**
Recognised as follows:		
Deferred tax assets	41	26
Deferred tax at 31 December	**41**	**26**

Tax loss carryforwards are recognised based on the expected utilization within 3-5 years.

Notes to Parent Company Financial Statements

6. Share capital

The Parent Company's share capital, DKK 100 thousand, is composed of shares of DKK 0.01 or multiples thereof.

7. Security for loans and contingent liabilities

The joint taxation liability mentioned above is also valid for the Parent Company.

8. Fees paid to auditors appointed at the annual general meeting

Total fees to Deloitte

	2019 DKK'000	2018 DKK'000
Fee for statutory audit	14	9
Fee for tax advice	6	6
Fee for non-audit services	52	14
	72	**29**

Notes to Parent Company Financial Statements

9. Events after the balance sheet date

COVID-19 Virus

From late January 2020, our Chinese market and local operations have been severely impacted by the outbreak of the COVID-19 virus. Regardless, the Frontmatec Group delivered according to budget in January and March 2020.

From mid-March 2020, the outbreak of the COVID-19 virus has started to impact all of our main markets. For the most part, our customers are operating at normal capacity, due to being critical to the food supply chain, why we continue to see a good underlying demand for our product and services. However, internal measures taken to ensure employee safety and the extensive travel restrictions imposed are especially challenging to our service and installation business, which will impact short-term performance. At the same time, we see customers increasingly focusing on ensuring business continuity, why larger projects could be postponed, which will also impact short-term performance. Long-term, we do not see a risk with respect to the larger projects, and the Frontmatec Group is well positioned due to our leading technology platform.

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To mitigate the impact of the outbreak of COVID-19 virus on short-term performance, the Frontmatec Group has implemented a range of initiatives to boost sales, reduce costs and improve liquidity. Public COVID-19 virus support programs are also utilised, where relevant and applicable.

Other events after the balance sheet date

Other than what has been described above regarding COVID-19 virus, there have been no events since 31 December 2019, which could significantly affect the evaluation of the Group's financial position and revenue.