**Frontmatec Kolding A/S**
Platinvej 8
6000 Kolding
Central Business Registration No.:
76547610

# Annual report 2019

The Annual General Meeting adopted the annual report on

**Chairman of the General Meeting**

Thomas Stenager

# Contents

# Company Details

**Company**

Frontmatec Kolding A/S
Platinvej 8
6000 Kolding

Central Business Registration No: 76547610
www.frontmatec.com

**Board of Directors**

Henrik Andersen, Chairman
Thomas Nybo Stenager
Kurt Godsk Andersen
Morten Albin Olsen
Kurt Karlsen
Finn Ejsing Andreasen

**Executive Board**

Thomas Nybo Stenager, 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 Kolding A/S for the financial year 1 January - 31 December 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 financial statements give a true and fair view of the Company's financial position at 31.12.2019 and of the results of the operations and cash flows for the financial year 1 January - 31 December 2019.

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

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

Kolding, 31 August 2020

**Executive Board**

Thomas Nybo Stenager
Chief Executive Officer

**Board of Directors**

| | | |
|---|---|---|
| Henrik Andersen<br>Chairman | Thomas Nybo Stenager | Kurt Gødsk Andersen |
| Morten Albin Olsen | Kurt Karlsen | Finn Ejsing Andreasen |

# Independent Auditor's Report

**To the shareholders of Frontmatec Kolding A/S**

**Opinion**

We have audited the financial statements of Frontmatec Kolding A/S 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. The financial statements are prepared in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Company’s financial position at 31.12.2019, and of the results of the 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 financial statements* section of this auditor’s report. We are independent of the Company 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 financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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

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

**Management's responsibilities for the financial statements**

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

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

**Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Entity or business activities within the Entity to express an opinion on the financial statements. We are responsible for the

direction, supervision and performance of The Company 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, 31 August 2020

**Deloitte**
Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56

Søren Alsen Lauridsen
State-Authorised
Public Accountant
MNE-nr.: mne40040

# Management Review

| | 2019 DKK'000 | 2018 DKK'000 | 2017 DKK'000 | 2016 DKK'000 | 2015 DKK'000 |
|---|---|---|---|---|---|
| **Group financial highlights** | | | | | |
| Key figures | | | | | |
| Revenue | 427,042 | 318,543 | 342,095 | 293,455 | 253,345 |
| Gross profit | 451 | 37,602 | 5,852 | 27,837 | 66,898 |
| Operating profit/loss before depreciation, amortization and special items | (32,886) | 11,578 | 5,852 | 27,837 | 66,898 |
| Equity | 111,533 | 45,014 | (44,927) | 149,502 | 229,534 |
| Balance sheet total | 406,477 | 341,614 | 218,477 | 479,405 | 411,547 |
| | | | | | |
| **Financial development:** | | | | | |
| Cash flows from: | | | | | |
| - operating activities | 20,373 | (11,096) | 14,054 | 97,684 | 68,002 |
| - investing activities | (26,016) | 43,652 | (20,104) | (93,206) | (5,375) |
| - financing activities | 0 | (12,639) | (738) | (19,897) | (27,395) |
| Change in cash and cash equivalents for the year | (5,642) | 19,917 | (6,788) | (15,419) | 35,232 |
| | | | | | |
| Number of employees | 157 | 151 | 150 | 142 | 124 |
| | | | | | |
| **Ratios** | | | | | |
| Gross margin (%) | 0.0 | 11.8 | 1.7 | 9.5 | 26.4 |
| Operating margin (%) | (7.7) | (1.3) | (1.3) | 4.5 | 9.6 |
| Return on assets (%) | (8.8) | (1.5) | (118.6) | 1.7 | 4.5 |
| Equity ratio (%) | 27.4 | 13.2 | (486.0) | 31.2 | 55.8 |

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 |
| Operating margin (%) | = | Operating profit 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

**Operating review**

The main activities of the company are global sales, engineering, production, installation and service of plants and machinery for industrial slaughtering.

Furthermore, the company manufacturers and delivers Food Production Logistics systems, selected weighing/data systems as well as yield control and tracking systems.

**Financial review**

The company had revenue of DKK 427,042 thousand in 2019, which represents an increase of 34% from 2018. The record-high revenue was an important milestone in the company's ambition to remain the global preferred supplier of advanced food processing equipment.

Net profit for the year was DKK 66,833 thousand (2018: -2,231 thousand). The balance sheet at 31 December 2019 for the company shows total assets of DKK 406,477 thousand and a shareholders' equity of DKK 111.533 thousand.

Operating loss before depreciation, amortisation and special items was impacted by a relocation of the production site in Kolding, which resulted in cost over-runs on a number of projects and indirect loss of revenue, due to production disruption. The situation has stabilized in the beginning of 2020.

At 31 December 2019, the company owns own shares corresponding to 10.14 % of the share capital.

**Knowledge resources**

The leading position of the company within the slaughtering industry must be maintained through continued development of new technology and products.

This requires that employees acquire new knowledge and are willing to participate in necessary changes. This effort will be supported through staff development, education and a positive working environment.

**Special risks**

*Unusual risks*

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

*Financial risks*

The company is exposed to changes in exchange rates and interest rates due to its operational and financial set-up. The company manages its financial risks through currency hedging instruments.

**Impact on the external environment**

The company has ratified environmental protection legislation for manufacturers of iron, steel and metal.

# Frontmatec's Business Review

**Research and development activities**

The company's development activities are expected to increase compared to previous years, and there will be continued focus on exploiting knowledge and experience. In addition to development activities carried out by the company, staff development is pursued in close co operation with customers, know how and industry organizations. The company protects its intellectual rights by taking out relevant patents.

**COVID-19 Virus**

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 products 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 company is well positioned due to our leading technology platform.
To mitigate the impact of the outbreak of COVID-19 virus on short-term performance, a range of initiatives have been implemented to boost sales, reduce costs and improve liquidity. Public COVID-19 virus support programs are also utilised.

**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 company'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 Social Responsibility (CSR)**

For the statutory report on corporate social responsibility, in accordance with Danish Financial Statements Act §99a, The Company has implemented measures for Corporate Social Responsibility which are included in the UN global compact communication on progress report which is available on the Frontmatec website via the following link: https://www.frontmatec.com/media/4987/frontmatec-cop_2019.pdf.

# Frontmatec's Business Review

**Account of the gender composition of Management**

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 strenghthen the company's versatility, broaden its competences and improve its decision-making processes.

The board of directors aims to ensure that its members 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. These factors are taken into account when new candidates for the board of directors are identified, and the nomination of candidates will always be based on an assessment of their competences, how they will contribute to the overall efficiency of the board of directors.

With reference to the Danish Companies Act section 139a stk. 5 policies are developed and reporting on progress is conducted on group level. Reference is therefore made to the annual report for Frontmatec Group ApS.

# Income Statement 1 January – 31 December

| | Note | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|---|
| Revenue | 4 | 427,042 | 318,543 |
| Raw materials and consumables used | 5+6 | (394,189) | (264,130) |
| Other operating income | 8 | 251 | 14,620 |
| External costs | 6 | (32,653) | (31,431) |
| **Gross profit** | | **451** | **37,602** |
| Staff costs | 6 | (33,337) | (26,024) |
| **Operating profit/loss before depreciations, amortisation and special items** | | **(32,886)** | **11,578** |
| Special non-recurring items | 9 | (11,254) | (7,427) |
| Depreciation, amortisation and impairment of non-current assets | 7 | (11,330) | (8,367) |
| **Operating loss** | | **(55,470)** | **(4,216)** |
| Financial income | 10 | 123,245 | 12,108 |
| Financial expense | 11 | (14,627) | (11,966) |
| **Profit/loss before tax** | | **53,148** | **(4,074)** |
| Tax for the year | 12 | 13,685 | 1,843 |
| **Profit/loss for the year** | | **66,833** | **(2,231)** |

## Statement of comprehensive income

| | 2019 | 2018 |
|---|---|---|
| **Profit/loss for the year** | **66,833** | **(2,231)** |
| **Items that are or may be reclassified subsequently to profit or loss:** | | |
| Unrealized loss on forward exchange contracts for the year | (234) | (965) |
| Tax | 52 | 212 |
| **Other comprehensive income for the year after tax** | **(183)** | **(753)** |
| **Comprehensive income for the year** | **66,650** | **(2,984)** |

# Statement of Financial Position

| Assets | Note | 31.12. 2019 DKK'000 | 31.12. 2018 DKK'000 |
|---|---|---|---|
| Development completed | | 8,090 | 7,565 |
| Acquired intangible assets | | 347 | 196 |
| Development in progress | | 14,978 | 8,520 |
| **Intangible assets** | **13** | **23,415** | **16,281** |
| | | | |
| Land and buildings | | 4,372 | 0 |
| Plant and machinery | | 2,010 | 1,147 |
| Other fixtures and fittings, tools and equipment | | 1,676 | 1,327 |
| Right of use assets | | 10,354 | 3,563 |
| **Property, plant and equipment** | **14+15** | **18,411** | **6,037** |
| | | | |
| Investments in subsidiaries | 16 | 125,892 | 121,486 |
| Deferred tax asset | 20 | 14,803 | 3,558 |
| **Fixed asset investments** | | **140,695** | **125,044** |
| | | | |
| **Non-current assets** | | **182,521** | **147,362** |
| | | | |
| **Inventories** | **17** | **40,766** | **36,179** |
| | | | |
| Trade receivables | 18 | 60,379 | 46,943 |
| Contract assets | 19 | 63,380 | 50,484 |
| Amounts owed Group entities | | 41,098 | 30,008 |
| Other receivables | | 394 | 5,233 |
| Prepayments | | 2,029 | 996 |
| **Receivables** | | **167,279** | **133,664** |
| | | | |
| **Securities and investments** | | **575** | **575** |
| | | | |
| **Cash at bank and in hand** | | **15,336** | **23,834** |
| | | | |
| **Current assets** | | **223,956** | **194,252** |
| | | | |
| **Assets** | | **406,477** | **341,614** |

# Parent Company Statement of Financial Position

| Equity and liabilities | Note | 31.12. 2019 DKK'000 | 31.12. 2018 DKK'000 |
|---|---|---|---|
| Share capital | 21 | 9,922 | 9,922 |
| Reserve for value adjustments of hedging transactions | | (854) | (671) |
| Reserve for treasure shares | | (8,726) | (8,726) |
| Reserve for capitalised development costs | | 15,877 | 21,321 |
| Retained earnings | | 95,314 | 23,168 |
| **Equity** | | **111,533** | **45,014** |
| Lease liabilities | 22 | 7,948 | 2,016 |
| **Non-current liabilities** | | **7,948** | **2,016** |
| Current position of non-current liabilities | 22 | 2,452 | 1,742 |
| Other credit institutions | | 0 | 2,858 |
| Other provisions | 23 | 2,200 | 1,727 |
| Contract liabilities | 19 | 27,473 | 48,358 |
| Trade payables | | 58,083 | 55,531 |
| Amounts owed to Group entities | | 158,270 | 159,032 |
| Other payables | | 37,267 | 25,336 |
| Deferred income | | 1,251 | 0 |
| **Current liabilities** | | **286,996** | **294,600** |
| **Liabilities** | | **294,944** | **296,600** |
| **Equity and liabilities** | | **406,477** | **341,614** |

# Statement of Changes in Equity
# 1 January – 31 December

| | Share capital DKK'000 | Value adjust-ments of hedging transactions DKK'000 | Treasury shares DKK'000 | Capitalized development cost DKK'000 | Retained earnings DKK '000 | Total DKK'000 |
|---|---|---|---|---|---|---|
| **Equity at 1 January 2018** | **9,922** | **82** | **(8,726)** | **9,680** | **(55,885)** | **(44,927)** |
| *Comprehensive income for the year* | | | | | | |
| Loss for the year | 0 | 0 | 0 | 0 | (2,231) | (2,231) |
| Capitalized development costs | 0 | 0 | 0 | 1,961 | (1,961) | 0 |
| *Other comprehensive income* | | | | | | |
| Unrealized loss on currency and | | | | | | |
| interest swap in group companies | 0 | (965) | 0 | 0 | 0 | (965) |
| Hereoff tax | 0 | 212 | 0 | 0 | 0 | 212 |
| **Comprehensive income for the year 2018** | **0** | **(753)** | **0** | **0** | **(2,231)** | **(2,984)** |
| Capital contribution | 0 | 0 | 0 | 0 | 92,856 | 92,856 |
| Share based payment | 0 | 0 | 0 | 0 | 69 | 69 |
| **Equity at 31 December 2018** | **9,922** | **(670)** | **(8,726)** | **11,641** | **32,848** | **45,014** |

| | Share capital DKK'000 | Value adjust-ments of hedging transactions DKK'000 | Treasury shares DKK'000 | Capitalized development cost DKK'000 | Retained earnings DKK '000 | Total DKK'000 |
|---|---|---|---|---|---|---|
| **Equity at 1 January 2019** | **9,922** | **(671)** | **(8,726)** | **11,641** | **32,848** | **45,014** |
| *Comprehensive income for the year* | | | | | | |
| Profit /Loss for the year | 0 | 0 | 0 | 0 | 66,833 | 66,833 |
| Capitalized development costs | 0 | 0 | 0 | 5,431 | (5,431) | 0 |
| Hereof tax | 0 | 0 | 0 | (1,195) | 1,195 | 0 |
| *Other comprehensive income* | | | | | | |
| Unrealized loss on currency and | | | | | | |
| interest swap in group companies | 0 | (234) | 0 | 0 | 0 | (234) |
| Hereoff tax | 0 | 52 | 0 | 0 | 0 | 52 |
| **Comprehensive income for the year 2019** | **0** | **(183)** | **0** | **4,236** | **62,597** | **66,650** |
| Share based payment | 0 | 0 | 0 | 0 | (131) | (131) |
| **Equity at 31 December 2019** | **9,922** | **(854)** | **(8,726)** | **15,877** | **95,314** | **111,533** |

# Company Cash Flow Statement

| | Note | 31.12 2019 DKK'000 | 31.12 2018 DKK'000 |
|---|---|---|---|
| Operating loss | | (55,470) | (18,836) |
| Depreciation, amortisation and impairment losses | | 8,526 | 6,304 |
| Provisions | | 473 | (2,624) |
| Changes in receivables | | (33,616) | (45,268) |
| Changes in inventories | | (4,587) | 1,337 |
| Changes in trade payables | | 1,790 | 2,946 |
| Changes in other working capital | | (8,148) | 39,095 |
| Financial income | | 123,245 | 12,108 |
| Financial cost | | (14,329) | (11,966) |
| Tax for the year | | 2,492 | 5,808 |
| **Cash flows from operating activities** | | **20,375** | **(11,096)** |
| Addition of property, plant and equipment | | (22,216) | (6,886) |
| Sale of property, plant and equipment | | 972 | 24,008 |
| Addition of investments | | (4,406) | (65,430) |
| **Cash flow from investing activities** | | **(25,650)** | **(48,308)** |
| Capital movements | | (365) | 91,960 |
| Contracting of long-term liabilities | | 0 | (12,639) |
| **Cash flows from financing activities** | | **(365)** | **79,321** |
| **Net cash flows for the year** | | **(5,640)** | **19,917** |
| Cash and cash equivalents 1 January | | 20,976 | 1,059 |
| **Cash and cash equivalents at 31 December** | | **15,336** | **20,976** |

Cash and cash equivalents include cash at bank and in hand

# Notes to the Financial Statement

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

With reference to the Danish Financial Statements Act, section 86(4), consolidated financial statements have not been prepared. Frontmatec Kolding A/S and subsidiaries are included in the consolidated financial statements of Frontmatec Group ApS.

*IFRIC 23 Uncertainty over Income Tax Treatments*

Frontmatec Kolding A/S 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 Company 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, Frontmatec Kolding A/S should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. – If no, Frontmatec Kolding A/S 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

Frontmatec Kolding A/S 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 Company.

The amendments clarify that Frontmatec Kolding A/S should recognise the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where The Company 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.

# Notes to the Financial Statement

## 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.

*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.

# Notes to the Financial Statement

## 3. Other general accounting policies

The 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

**Changes to accounting policies**

Accounting policies for presentation of the income statement has changed from functional to 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 change to the total profit loss and financial ratios. Comparables have been restated to reflect the updated policy. 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 coparison periods. For new standards that are implemented the comparatives have not been restated.

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 Company and the value of the assets can be measured reliably. Liabilities are recognised in the balance sheet when The Company 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 Company 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 Company and the functional currency of the Parent Company.

**Consolidation**

With reference to section 112 of the Danish Financial Statements Act and to the consolidated financial statements of Frontmatec Group ApS, the Company has not prepared consolidated financial statements.

# Notes to the Financial Statement

**Business combinations**

Recently acquired or sold subsidiaries are recognised in the 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 profit/loss. 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 Company'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**

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.

# Notes to the Financial Statement

**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 Company 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 Company expects to be entitled in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognizes revenue when it transfers control of a product or service to a customer.

*Sale of spare parts*

The Company 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 Company 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 Company 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 Financial Statement

*Construction and installation of specialized machinery and equipment*

The Company 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 Company 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 Company 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 Company 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 Company 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 Company 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.

**Raw materials and consumables used**

Raw materials and consumables used comprise the consumption of raw materials and consumables for the financial year after adjustment for changes in invento-ries og these goods from the beginning to the end of the year. This item includes shrinkage, if any, and ordinary writedowns of the relevant inventories. Raw materials and consumables used 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 Financial Statement

**External costs**

External costs 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 recog-nized in current assets.

**Grants**

Grants for research and development costs are recognised in profit or loss as other operating income on a systematic basis over the period in which The Company 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 Company's revenue generating operating activities which cannot be attributed directly to The Company's ordinary operating activities. Such income and costs include the cost related to significant restructuring of processes and fundamental structural adjust-ment, as well as gains or losses arising in this connection, and which are significant over time.

Special non-recurring 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 Company'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.
Property, plant and equipment are depreciated on a straight-line basis over the expected useful life of each individual asset. The 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 Financial Statement

**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. Consolidated financial statements and parent company financial statements for 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 Company.

**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

# Notes to the Financial Statement

**Other intangible assets (continued)**

- 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 equipments**

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.

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.

# Notes to the Financial Statement

**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 Company'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.
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.

# Notes to the Financial Statement

**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 Company has entered into pension plans and similar arrangements with most employees.

Contributions to defined contribution plans where The Company 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 Financial Statement

**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. 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.

# Notes to the Financial Statement

**Cash flow statement (continued)**

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

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| **4. Revenue** | | |
| **Segmentation of revenue:** | | |
| Domestic | 81,528 | 59,953 |
| Foreign | 345,514 | 258,590 |
| | **427,042** | **318,543** |
| | | |
| **Timing of revenue recognition** | | |
| Recognition at single point of time | 97,805 | 117,502 |
| Recognition over time | 329,237 | 201,041 |
| | **427,042** | **318,543** |

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

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| **5. Raw materials and consumables used** | | |
| Production costs for the year | 395,878 | 262,632 |
| Inventory write-down for the year | (1,689) | 1,498 |
| | **394,189** | **264,130** |
| | | |
| **6. Staff costs** | | |
| Wages and salaries | 91,973 | 83,726 |
| Pensions | 7,165 | 6,634 |
| Other social security costs | 848 | 749 |
| | **99,986** | **91,109** |
| | | |
| Average number of full-time employees | 157 | 151 |

# Notes to the Financial Statement

### Staff cost (continued)

Staff costs are recognized as follows in the financial statements:

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| Raw materials and consumables used | 64,339 | 62,945 |
| Employee benefit costs | 33,337 | 26,024 |
| Special non-recurring items | 2,249 | 2,140 |
| | **99,986** | **91,109** |

Total remuneration to Board of Directors and Executive Board of DKK 100 thousand (2018 DKK 100 thousand) are included in staff costs.

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| **7. Depreciation, amortisation and impairment losses** | | |
| Development completed | 7,473 | 2,744 |
| Acquired intangible assets | 92 | 1,668 |
| Buildings | 23 | 984 |
| Plant and equipment | 376 | 386 |
| Other fixtures and fittings, tools and equipment | 562 | 522 |
| Right-to-use assets | 2,804 | 2,063 |
| | **11,330** | **8,367** |
| **8. Other operating income** | | |
| Profit on the sale of property, plant and equipment | 251 | 14,620 |
| | **251** | **14,620** |
| **9. Special non-recurring items** | | |
| Cost of internal restructuring | 11,254 | 7,427 |
| | **11,254** | **7,427** |
| **10. Financial income** | | |
| Interest income from subsidiaries | 0 | 4,385 |
| Dividend | 117,321 | 0 |
| Other interest receivable, exchange rate gains and similar income | 5,924 | 7,723 |
| | **123,245** | **12,108** |

# Notes to the Financial Statement

| | 2019<br>DKK'000 | 2018<br>DKK'000 |
|---|---|---|
| **11. Financial expense** | | |
| Interest expense to subsidiaries | 5,886 | 3,642 |
| Interest expense, exchange rate losses and similar expenses | 8,741 | 8,324 |
| | **14,627** | **11,966** |
| | | |
| **12. Tax for the year** | | |
| Current tax for last year | 0 | 14 |
| Changes in provision for deferred tax | (13,685) | (2,069) |
| | **(13,685)** | **(2,055)** |
| | | |
| Specified as follows: | | |
| Tax for the year | (13,633) | (1,581) |
| Tax for last year | 0 | (262) |
| Tax on changes in OCI | (52) | (212) |
| | **(13,685)** | **2,055** |
| | | |
| **Reconciliation of tax rate:** | | |
| Tax according to Danish tax rate | 11,660 | (896) |
| Non-taxable income and non-deductible costs | (25,345) | (685) |
| Adjustments of current tax regarding previous years | 0 | (262) |
| | **(13,685)** | **(1,843)** |
| | | |
| Effective tax rate (%) | (20,5) | 57,7 |

# Notes to the Financial Statement

### 13. Intangible assets

| DKK´000 | Development projects completed | Acquired intangible assets | Development projects in progress | Total |
|---|---|---|---|---|
| **Cost price** | | | | |
| Cost at 1/1 2018 | 48,182 | 18,756 | 7,462 | 74,400 |
| Additions in the year | 1,283 | 10 | 5,136 | 6,429 |
| Transfer | 4,078 | 0 | (4,078) | 0 |
| **Cost at 31/12 2018** | **53,543** | **18,766** | **8,520** | **80,829** |
| **Amortisation and write-downs** | | | | |
| Balance at 1/1 2018 | 43,234 | 16,902 | 0 | 60,136 |
| Amortisation in the year | 2,744 | 1,668 | 0 | 4,412 |
| **Balance at 31/12 2018** | **45,978** | **18,570** | **0** | **64,548** |
| **Carrying amount** | **7,565** | **196** | **8,520** | **16,281** |

| DKK´000 | Development projects completed | Acquired intangible assets | Development projects in progress | Total |
|---|---|---|---|---|
| **Cost price** | | | | |
| Cost at 1/1 2019 | 53,543 | 18,766 | 8,520 | 80,829 |
| Additions in the year | 0 | 243 | 15,371 | 15,614 |
| Transfer | 7,998 | 0 | (7,998) | 0 |
| Disposals in the year | 0 | 0 | (915) | (915) |
| **Cost at 31/12 2019** | **61,541** | **19,009** | **14,978** | **95,528** |
| **Amortisation and write-downs** | | | | |
| Balance at 1/1 2019 | 45,978 | 18,570 | 0 | 64,548 |
| Amortisation in the year | 7,473 | 92 | 0 | 7,565 |
| **Balance at 31/12 2019** | **53,451** | **18,662** | **0** | **72,113** |
| **Carrying amount** | **8,090** | **347** | **14,978** | **23,415** |

# Notes to the Financial Statement

**13. Intangible assets (continued)**

Management performs an impairment test of the carrying amount of goodwill, development projects and other non-current assets at least annually and more frequently if there is 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 is calculated based on the Capital Asset Pricing Model (CAPM model)

The impairment test as at 31 December 2019 showed no evidence of impairment for 2019.
Management believes that currently no changes in the key assumptions are reasonably likely to reduce the headroom to zero in any of the CGUs.

The definition of CGUs 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 units 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 2.01 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 urbanizing, growing wealth and increasing demand for food well-being and food safety. 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 and expected growth rates

# Notes to the Financial Statement

### 13. Intangible assets (continued)

| | 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 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 evidence of impairment.

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

### 14. Tangible assets

| DKK´000 | Land and buildings | Plant and machinery | Fixtures and fittings tools and equipment | Total |
|---|---|---|---|---|
| Balance at 1/1 2018 | 43,391 | 10,002 | 8,111 | 61,504 |
| Additions in the year | 0 | 75 | 382 | 457 |
| Disposals in the year | (43,391) | 0 | (176) | (43,567) |
| **Cost at 31/12 2018** | **0** | **10,077** | **8,317** | **18,394** |
| | | | | |
| **Depreciations and write-downs** | | | | |
| Balance at 1/1 2018 | 33,112 | 8,544 | 6,551 | 48,207 |
| Depreciation in the year | 984 | 386 | 522 | 1,892 |
| Accumulated depreciation and write-downs of disposals | (34,096) | 0 | (83) | (34,176) |
| **Depreciation and write-downs at 31/12 2018** | **0** | **8,930** | **6,990** | **15,920** |
| | | | | |
| **Carrying amount at 31/12 2018** | **0** | **1,147** | **1,327** | **2,474** |

# Notes to the Financial Statement

**14. Tangible assets (continued)**

| DKK´000 | Land and buildings | Plant and machinery | Fixtures and fittings tools and equipment | Total |
|---|---|---|---|---|
| Balance at 1/1 2019 | 0 | 10,077 | 8,317 | 18,394 |
| Additions in the year | 4,395 | 1,239 | 968 | 6,602 |
| Disposals in the year | 0 | (2,181) | (278) | (2,459) |
| **Cost at 31/12 2019** | **4,395** | **9,135** | **9,007** | **22,537** |
| **Depreciations and write-downs** | | | | |
| Balance at 1/1 2019 | 0 | 8,930 | 6,990 | 15,920 |
| Depreciation in the year | 23 | 376 | 562 | 961 |
| Accumulated depreciation and write-downs of disposals | 0 | (2,181) | (221) | (2,459) |
| **Depreciation and write-downs at 31/12 2019** | **23** | **7,125** | **7,331** | **14,479** |
| **Carrying amount at 31/12 2019** | **4,372** | **2,010** | **1,676** | **8,058** |

# Notes to the Financial Statement

### 15. Right-of-use assets

| DKK´000 | Land and buildings | Fixtures and fittings tools and equipment | Total |
|---|---|---|---|
| Balance at 1/1 2018 | 0 | 0 | 0 |
| Initial recognition | 0 | 2,139 | 2,139 |
| Additions in the year | 2,155 | 1,332 | 3,487 |
| Depreciation in the year | (1,539) | (524) | (2,063) |
| **Cost at 31/12 2018** | **616** | **2,947** | **3,563** |
| | | | |
| **Depreciation and write-downs** | | | |
| Balance at 1/1 2019 | 616 | 2,947 | 3,563 |
| Additions in the year | 9,963 | 347 | 10,310 |
| Re-measurement and leasing debt | 0 | (714) | (714) |
| Depreciation in the year | (1,857) | (947) | (2,805) |
| **Balance at 31.12.2019** | **8,722** | **1,633** | **10,354** |

The Company 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 5½ years was applied.

Leases does not include variable lease payments.

Amounts recognised in profit and loss

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| Depreciation expense on right-of-use assets | 2,805 | 2,063 |
| Interest expense on lease liabilities | 298 | 74 |
| | **3,103** | **2,137** |

The total cash outflow for leases amounts to DKK 3,259 Thousand

# Notes to the Financial Statement

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| **16. Investments in subsidiaries** | | |
| Cost at 1 January | 233,041 | 167,611 |
| Addition of enterprises | 4,406 | 65,430 |
| **Cost at 31 December** | **237,447** | **233,041** |
| Impairment at 1 January | (111,555) | (111,555) |
| Impairment at 31 December | **(111,555)** | **(111,555)** |
| **Carrying amount at 31 December** | **125,892** | **121,486** |
| **Dividends received** | **117,321** | **0** |

Investment in subsidiaries are specified as follows:

| **Subsidiaries** | **Legal Form** | **Domicile** | **Voting rights and ownership** |
|---|---|---|---|
| Frontmatec Equipements Inc. | Inc. | St. Anselme, Canada | 100 |
| Frontmatec Inc. | Inc. | Kanas City, USA | 100 |
| Frontmatec Holding B.V. | B.V. | Borculo, the Netherlands | 100 |
| Frontmatec LLC | LLC | Moscow, Russia | 100 |
| Frontmatec Shanghai Co, Ltd | Co. Ltd. | Shanghai China | 100 |

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| **17. Inventories** | | |
| Raw materials and consumables | 39,731 | 35,530 |
| Work in progress | 1,035 | 649 |
| | **40,766** | **36,179** |

The cost of inventories recognised as an expense includes DKK 1.7 million (2018: DKK 1.5 million) in respect of write-downs of inventory to net realizable value.

# Notes to the Financial Statement

### 18. Trade receivables

| | | |
|---|---|---|
| Write down at 1 January | 222 | 702 |
| Addition | 2,000 | 0 |
| Reversals/realised | (150) | (480) |
| | **2,072** | **222** |

The average credit period is 8-60 days. No interest is charged on outstanding trade receivables. The Company always measures the loss allowance for trade receivables at an amount equal to lifetime ECL. 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.

### 19. Contract assets and liabilities

| | **2019 DKK'000** | **2018 DKK'000** |
|---|---|---|
| **Reconciliation of contractual assets and liabilities** | | |
| **Contractual assets** | | |
| Constrution contracts | 63,380 | 50,484 |
| | **63,380** | **50,484** |
| | | |
| **Contractual liabilities** | | |
| Construction contracts | (27,473) | (48,358) |
| | **(27,473)** | **(48,358)** |

**Recorded revenue related to contracts**

Contracts (assets) with customers include sales value of work performed where The Company has not yet obtained an unconditional right to payment since the work has not been completed 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 48.4 million (2018: DKK 7.0 million) have been recognised as revenue in 2019 and 2018 respectively.

# Notes to the Financial Statement

**19. Contract assets and liabilities (continued)**

*Significant changes in contractual assets and liabilities*

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

*Not satisfied performance obligations related to construction contracts*

In accordance with IFRS 15.121 The Company 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 | 578,293 | 372,969 |
| Progress billings | (542,387) | (370,844) |
| Recognised as follows: | | |
| Construction contracts (assets) | 63,380 | 50,484 |
| Prepayments received from customers (liabilities) | (27,473) | (48,359) |
| | **35,906** | **2,125** |

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| **21. Deferred tax** | | |
| Deffered tax relates to: | | |
| Intangible assets | (5,151) | (3,582) |
| Tangible | 4,334 | 6,077 |
| Current assets | (19,297) | (18,695) |
| Liabilities | 255 | 420 |
| Tax loss carryforwards | 34,662 | 19,338 |
| | **14,803** | **3,558** |
| Recognised as follows: | | |
| Deferred tax assets | 14,803 | 3,558 |

# Notes to the Financial Statement

## 22. Share capital

The company's share capital, DKK 9,922 thousand, is composed of shares of DKK 100 or multiples hereof.

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| 1 January | 9,922 | 9,922 |
| **31 December** | **9,922** | **9,922** |

At 31 December 2019, the company owns own shares corresponding to 10.14% of the share capital.

## 23. Long-term liabilities

Breakdown of certain liabilities by 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 2019 | Due within 1 year | Total at 31/12 2019 |
|---|---|---|---|---|---|
| Lease liabilities | 7,494 | 454 | 7,948 | 2,452 | 10,400 |
| **Total** | **7,494** | **454** | **7,948** | **2,452** | **10,400** |

## 24. Provisions

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| Warranties at 1 January | 1,727 | 4,351 |
| Utilised during the year | (1,727) | (4,351) |
| Unutilized warranties reversed | 0 | 0 |
| Provision for the year | 2,200 | 1,727 |
| **Warranties at 31 December** | **2,200** | **1,727** |

# Notes to the Financial Statement

### 25. Security for loans and contingent liabilities

The shares in Frontmatec Equipments Inc and Frontmatec Inc are pledged as security for all bank debt.

As security for all bank loan floating mortgage dead over chattels is granted by Frontmatec Kolding A/S DKK 15,000 thousand.

Frontmatec Kolding A/S has issued a guarantee of payment for all bank debt.

Furthermore the company has issued a negative pledge towards the bank.

Prepayment guarantees and performance bonds provided to customers amount to DKK 21.346 thousand.

### 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, but it is the company's policy not to engage in any active speculation in financial risks.

The company negotiates both global and local credit and guarantee facilities.

*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 Company’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.

| | **EUR** | **USD** | **CAD** | **CNY** | **RUB** |
|---|---|---|---|---|---|
| Profit/(loss) | 150 | 1,754 | 2,624 | (159) | 62 |
| Equity | 1,179 | 4,759 | 4,253 | (284) | 61 |

# Notes to the Financial Statement

**26. Financial risks (continued)**

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 bank and mortgage debt. Interest rate risks occur when interest rate levels change. A 1% increase in the interest rate will have a DKK 1,172 thousand effect on the company's interest costs.

*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 honor 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 honor 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 and credit insurance.

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

# Notes to the Financial Statement

**27. Derivatives**

**Fair value of hedge instruments not qualifying for hedge accounting (economic hedge)**

Fair value adjustments recognized in financial items in the income statement amount to DKK 0m in 2019 and DKK 0m in 2018. At 31 December 2018, the fair value of the company's hedge agreements that are not recognized as hedge accounting amounted to DKK 0m (2018: DKK 0m).

**Fair value hedge**

To minimize the foreign currency exposure arising from trade receivables and firm commitments, the company uses forward exchange contracts. The change in fair value is specified below

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| Fair value | 1,877 | 162 |
| Included in the income statement | 1,877 | 691 |

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| The contractual amount on the forward exchange contracts are | | |
| DKK/USD | 27,913 | 30,384 |
| Included in the income statement | 0 | 33,000 |

**Cash-flow hedge**

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

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| Fair value | (2,239) | (1,726) |
| Included in the income statement | 0 | 13 |

| | 2019 DKK'000 | 2018 DKK'000 |
|---|---|---|
| The contract notional amount on the forward exchange contracts are | | |
| AUS/DKK | 38,339 | 52,106 |
| USD/DKK | 3,688 | 16,430 |

Expected recognition for the hedges are in 2020.

At 31 December 2019 the fair value of the company's value hedge instruments amounted to DKK -0,4m.

# Notes to the Financial Statement

**28. Related party disclosures**

Frontmatec Group ApS has controlling interest in Frontmatec Kolding A/S.

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.

**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 Group ApS, Platinvej 8, 6000 Kolding

**29. Board of Directors and Executive Board**

Frontmatec Kolding A/S´ Board of Directors and Executive Board hold other executive positions as described below.

| | **Executive positions** |
|---|---|
| Henrik Andersen | Chairman of the supervisory board Frontmatec Tandslet A/S<br>Chairman of the supervisory board Frontmatec Skive A/S<br>Member of the supervisory board HM Systems A/S<br>CEO Frontmatec Smørum A/S<br>CEO Frontmatec Group ApS<br>CEO Avnholt Invest ApS |
| Thomas Nybo Stenager | Chairman of the supervisory board Frontmatec Smørum A/S<br>Member of the supervisory board Frontmatec Skive A/S<br>Member of the supervisory board Frontmatec Tandslet A/S<br>CFO Frontmatec Group ApS |
| Kurt Godsk Andersen | Member of the supervisory board Brüel Systems A/S<br>Member of the supervisory board BS Holding 2015 A/S<br>Member of the supervisory board Frontmatec Smørum A/S<br>Member of the supervisory board Frontmatec Skive A/S<br>CEO Frontmatec Skive A/S<br>CEO Andersen Advice ApS |
| Morten Albin Olsen | Member of the supervisory board Frontmatec Tandslet A/S |
| Finn Ejsing Andreasen | Employees representative |
| Kurt Karlsen | Employees representative |

# Notes to the Financial Statement

### 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 | 274 | 212 |
| Other assurance engagements | 0 | 0 |
| Fee for tax advice | 5 | 5 |
| Fee for non-audit services | 84 | 203 |
| | **363** | **420** |

### 31. Standards and interpretations that have 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 | Plan Amendment, Curtailment or Settlement |
| 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 Company in future periods.

### 32. Incentive programs

A number of key employees have been granted options to purchase shares in Frontmatec Kolding A/S, at a set strike price.

The program, which could only be exercised by purchasing the shares in question, granted the right to acquire a number of shares in Frontmatec Holding II ApS at a price agreed in advance. All warrants granted to Frontmatec Kolding A/S employees lapsed in 2019 and are not to be exercised.

Number of warrents

| Number of warrants | A1 warrants | A2 warrants | B warrants |
|---|---|---|---|
| 1 January 2019 | 0 | 31,667 | 15,833 |
| Allotted in 2019 | 0 | 0 | 0 |
| Lapsed in 2019 | 0 | (31,667) | (15,833) |
| **31 December 2019** | **0** | **0** | **0** |

# Notes to the Financial Statement

### 33. Reconciliation of financing activities

| | 2018 | Cash flows | 2019 |
|---|---|---|---|
| Long term borrowings | 0 | 0 | 0 |
| Short term borrownings | 1,742 | 0 | 1,742 |
| Long term credit institutions | 0 | 0 | 0 |
| Short term credit institutions | 2,858 | (2,858) | 0 |
| **Total Liabilities from financing activities** | **4,600** | **(2,858)** | **1,742** |

### 34. Events after the balance sheet date

**COVID-19 Virus**

From mid-March 2020, the outbreak of the COVID-19 virus has started to impact all of our main mar-kets. 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 products and ser-vices. However, internal measures taken to ensure employee safety and the extensive travel re-strictions imposed are especially challenging to our service and installation business, which will im-pact short-term performance. At the same time, we see customers increasingly focusing on ensur-ing 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 company is well positioned due to our leading technology platform. To mitigate the impact of the outbreak of COVID-19 virus on short-term performance, a range of initi-atives have been implemented to boost sales, reduce costs and improve liquidity. Public COVID-19 virus support programs are also utilised.

**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 company’s financial position and rev-enue.