

FRONTMATEC

Frontmatec Kolding A/S

Platinvej 8, DK-6000 Kolding

CVR no: 76 54 76 10

Annual report 2020



Approved at the Company's annual general meeting on 9
July 2021

Chairman

Thomas Stenager

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Statement by the Board of Directors and the Executive Board

The Board of Directors and the Executive Board have today discussed and approved the annual report of Frontmatec Kolding A/S for the financial year 1 January – 31 December 2020.

The financial statements are presented in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU and supplementary Danish disclosure requirements of the Danish Financial Statements Act.

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2020 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2020.

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 Company's financial position, 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.

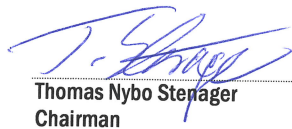
Kolding, 28 June 2021

Executive Board:



Jakob Bech Lauritzen
Chief Executive Officer

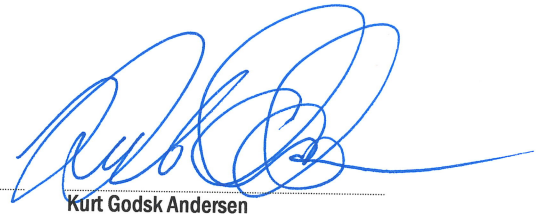
Board of Directors:



Thomas Nybo Stejneger
Chairman



Morten Albin Olsen



Kurt Godsk Andersen



Finn Ejsing Andreasen



Kurt Karlsen

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 01.01.2020 - 31.12.2020, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2020 and of the results of its operations and cash flows for the financial year 01.01.2020 - 31.12.2020 in accordance with the Danish Financial Statements Act.

Basis for opinion

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

Management's responsibilities for the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the 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.

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.

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.

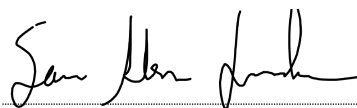
Copenhagen, 9 July 2021

Deloitte

Statsautoriseret Revisionspartnerselskab
Business Registration No 33 96 35 56



Bill Haudal Pedersen
State-Authorised Public Accountant
Identification No (MNE) mne30131



Søren Alsen Lauridsen
State-Authorised Public Accountant
Identification No (MNE) mne40040

Management's review

Company details

Name	Frontmatec Kolding A/S
Address, zip code, city	Platinvej 8, DK-6000 Kolding
CVR no.	76 54 76 10
Established	16 October 1999
Registered office	Kolding
Financial year	1 January – 31 December
Website	http://www.frontmatec.com/
Board of Directors	Thomas Nybo Stenager, Chairman Morten Albin Olsen Kurt Godsk Andersen Finn Ejsing Andreasen Kurt Karlsen
Executive Board	Jakob Bech Lauritsen, CEO
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab City Tower Værkmestergade 2 DK-8000 Aarhus C

Management's review**Financial highlights for the Company**

DKK'000	2020	2019	2018	2017	2016
Key figures					
Revenue	270,595	427,042	318,543	342,095	293,455
Gross profit/loss	-49,974	451	37,602	5,852	27,837
Operating profit/loss before depreciation amortization and special items (EBITDA before special items)	-86,337	-32,886	11,578	5,852	27,837
Net finance costs	9,719	108,618	142	-179,785	-4,789
Profit/loss for the year	-63,440	66,833	-2,231	-188,265	6,500
Equity	49,063	111,533	45,014	-44,927	149,502
Balance sheet total	368,108	406,477	341,614	218,477	479,405
Financial development					
Cash flows from operating activities	(32,014)	(93,687)	(11,096)	14,054	97,684
Cash flows from investing activities	12,657	91,671	43,652	(20,104)	(93,206)
Cash flows from property, plant and equipment	-1,663	-6,545	23,551	-1,410	-4,509
Cash flows from financing activities	-3,772	-3,624	(12,639)	(738)	(19,897)
Change in cash and cash equivalents for the year	(7,793)	(5,640)	19,917	(6,788)	(15,419)
Ratios					
Gross margin (%)	(18.5)	0.0	11.8	1.7	9.5
Operating margin (%)	(35.6)	(7.7)	(1.3)	(1.3)	4.5
Return on assets (%)	(24.9)	(8.8)	(1.5)	(118.6)	1.7
Equity ratio (%)	13.3	27.4	13.2	(486.0)	31.2
Number of employees					
	157	157	151	150	142

Financial ratios are calculated in accordance with the recommendations of the Danish Finance Society.

Definition of financial ratios:

Gross margin (%)	$\frac{\text{Gross profit} \times 100}{\text{Revenue}}$
Operating margin (%)	$\frac{\text{Operating profit} \times 100}{\text{Revenue}}$
Return on assets (%)	$\frac{\text{Operating profit} \times 100}{\text{Average assets}}$
Equity ratio (%)	$\frac{\text{Equity at year end} \times 100}{\text{Total equity and liabilities at year end}}$

Frontmatec's business review

About Frontmatec Kolding A/S

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

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

Highlights 2020

The global pandemic impacted Frontmatec in 2020. Most customers have focused on ensuring business continuity and many large greenfield projects, which were expected in 2020, were postponed. Consumers around the world still need food and the Frontmatec business model has proven to be resilient. The underlying demand for food and in particular meat is still high due to the continuous growing global population combined with an increasing demand for automation. Therefore, we do not expect any long term impact with respect to larger projects.

In May 2019, the manufacturing site in Kolding was relocated, which resulted in significant and unexpected costs in 2020, due to low efficiency and rework of machinery for several larger projects that were manufactured and installed in 2020. As a result, the operating profit before depreciations and special non-recurring items was negatively impacted with DKK 79 million in 2020. Corrective actions have been put in place during 2020, including improved layout of the factory site, hiring of new people, restructuring of the organization, and standardizing processes from signing the contract to handover to the customer. These changes have improved profit in Kolding in 2021.

Financial statements

The company had revenue of DKK 270,595 thousand in 2020, which represents a decrease of 37% from 2019.

Net loss for the year was DKK 63,440 thousand (2019 profit 66,833 thousand). The balance sheet at 31 December 2020 for the company shows total assets of DKK 366,534 thousand and a shareholders' equity of DKK 49,063 thousand.

At 31 December 2020, the company owns own shares corresponding to 10.14% of the share capital.

Knowledge resources

The leading position of the company within 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 manufactures of iron, steel and metal.

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.

Events after the balance sheet date

There have been no events since 31 December 2020, which could significantly affect the evaluation of the company's financial position and revenue.

Frontmatec's business review

Outlook

The strong revenue growth in recent years slowed down in 2020 due to the uncertainties of the global pandemic. Management expect that the larger greenfield projects will continue to be postponed from the global pandemic in the first half of 2021. We expect several of these to materialize when the pandemic is under control. Furthermore, as a result of the pandemic, new health and safety regulations are likely to be introduced in many markets which will drive demand for automation, re-builds and upgrades to comply with the new regulations.

In May 2019, the manufacturing site in Kolding was relocated, which resulted in significant and unexpected costs in 2020, due to low efficiency and rework of machinery for several larger projects that were manufactured and installed in 2020. As a result, the operating profit before depreciations and special non-recurring items was negatively impacted with DKK 79 million in 2020.

The factory relation impacted profit in 2020 negatively, which is not expected in 2021.

Based on above, management expect an increase in operating profit before depreciation, amortisation and special items around DKK 0 million.

Sustainability and CSR (in accordance with Danish Financial Statement Act §99a)

Food and meat in particular is a precious resource that has a major impact on the global sustainability. We, as a leading provider of advanced food processing equipment are fully aware of this and we want to take an active part to in helping feeding the growing global population, while using less resources. Our contribution towards this goal is to continuously design and develop solutions that maximizes the yield of each raw material and eliminate meat that could be used for human consumption from going to waste. We want Frontmatec to be a company where people are safe at work; and not just in Frontmatec locations, but equally at the plants where we provide our solutions. Frontmatec has implemented measure for Corporate Social Responsibility which are included in the UN Global Compact communication on progress report. How we work with sustainability and our contribution to the UN Sustainability Development Goals is available on the Frontmatec website:
https://www.frontmatec.com/media/6566/frontmatec-cop_2020.pdf

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

Frontmatec Group has a policy for diversity and equality, e.g. with a fair representation of gender and cultural mix 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.

It is Frontmatec Group's policy that regardless of gender, race, and religion, all employees must be treated equally in order to ensure that everyone has equal opportunities for employment.

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 in Frontmatec Group. 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 match Frontmatec Group's requirements and how they will contribute to the overall efficiency of the board of directors.

With reference to the Danish Companies Act section 139a section 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.

Financial statements for the period 1 January – 31 December

Income statement

Note	DKK'000	2020	2019
4	Revenue	270,595	427,042
5,6	Production costs	-300,068	-394,189
8	Other operating income	1,879	251
	External costs	-22,380	-32,653
	Gross profit/loss	-49,974	451
6	Staff costs	-36,363	-33,337
	Operating loss before depreciation amortisation and special items	-86,337	-32,886
9	Special items	-500	-11,254
7	Depreciation, amortisation and impairment of non-current assets	-9,417	-11,330
	Operating loss	-96,254	-55,470
10	Financial income	18,310	123,245
11	Financial expense	-8,591	-14,627
	Profit/loss before tax	-86,535	53,148
12	Tax for the year	23,095	13,685
	Profit/loss for the year	-63,440	66,833

Statement of comprehensive income

Note	DKK'000	2020	2019
	Loss for the year	-63,440	66,833
	<i>Items that are or may be reclassified subsequently to profit or loss:</i>		
	Unrealised gain on forward exchange contracts for the year	1,117	-234
	Hereof tax	-245	51
	Other comprehensive income for the year	872	-183
	Comprehensive income for the year	-62,568	66,650

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2020	2019
	ASSETS		
	Non-current assets		
	Development completed	10,295	8,090
	Acquired intangible assets	166	347
	Development in progress	13,285	14,978
13	Intangible assets	23,746	23,415
	Land and buildings	4,382	4,372
	Plant and machinery	2,040	2,010
	Other fixtures and fittings, tools and equipment	1,155	1,676
15	Right-of-use assets	15,027	10,354
14	Property, plant and equipment	22,604	18,412
16	Investments in subsidiaries	125,892	125,892
21	Deferred tax asset	34,328	14,803
	Fixed asset investments	160,220	140,695
	Non-current assets	206,570	182,521
17	Inventories	38,096	40,766
18	Trade receivables	30,673	60,379
19,20	Contract assets	46,744	63,379
	Amounts owed by Group entities	41,183	41,098
	Other receivables	86	394
	Prepayments	1,974	2,029
	Receivables	120,660	167,279
	Securities and investments	575	575
	Cash at bank and in hand	2,207	15,336
	Current assets	161,538	223,956
	ASSETS	368,108	406,477

Financial statements for the period 1 January – 31 December

Balance sheet

Note	DKK'000	2020	2019
	EQUITY AND LIABILITIES		
22	Share capital	9,922	9,922
	Reserve for value adjustments of hedging transactions	18	-854
	Reserve for treasury shares	-8,726	-8,726
	Reserve for capitalised development costs	16,276	15,877
	Retained earnings	31,573	95,314
	Equity	49,063	111,533
	Liabilities		
23	Lease liabilities	11,498	7,948
	Non-current liabilities	11,498	7,948
23	Current portion of long-term liabilities	3,771	2,452
	Other credit institutions	10,000	0
24	Other provisions	2,637	2,200
19,20	Contract liabilities	40,689	27,473
	Trade payables	38,184	58,083
	Amounts owed to Group entities	162,642	158,270
	Deferred income	1,587	1,251
	Other payables	48,037	37,267
	Current liabilities	307,547	286,996
	Liabilities	319,045	294,944
	EQUITY AND LIABILITIES	368,108	406,477

Financial statements for the period 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Value adjustments of hedging transactions	Treasury shares	Capitalized development cost	Retained earnings	Total
Equity at 1 January 2019	9,922	-671	-8,726	11,641	32,848	45,014
Comprehensive income for the year						
Profit 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						
Unrealised profit on currency and interest swap	0	-234	0	0	0	-234
Hereof tax	0	51	0	0	0	51
Other comprehensive income for the year	0	-183	0	0	0	-183
Comprehensive income for the year	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

DKK'000	Share capital	Value adjustments of hedging transactions	Treasury shares	Capitalized development cost	Retained earnings	Total
Equity at 1 January 2020	9,922	-854	-8,726	15,877	95,314	111,533
Comprehensive income for the year						
Loss for the year	0	0	0	0	-63,440	-63,440
Capitalized development costs	0	0	0	512	-512	0
Hereof tax	0	0	0	-113	113	0
Other comprehensive income						
Unrealised profit on currency and interest swap	0	1,117	0	0	0	1,117
Hereof tax	0	-245	0	0	0	-245
Other comprehensive income for the year	0	872	0	0	0	872
Comprehensive income for the year	0	872	0	399	-63,839	-62,568
Share-based payment	0	0	0	0	98	98
Equity at 31 December 2020	9,922	18	-8,726	16,276	31,573	49,063

Financial statements for the period 1 January – 31 December

Cash flow statement

DKK'000	2020	2019
Operating loss	-96,254	-55,470
Depreciation, amortisation and impairment losses	9,417	11,330
Provisions	437	473
Changes in receivables	46,619	-33,616
Changes in inventory, contract assets and contract liabilities	2,670	-4,587
Changes in trade payables	-15,527	1,790
Changes in other working capital	25,438	-7,694
Financial income	7	5,924
Financial cost	-8,146	-14,329
Tax for the year	3,325	2,492
Cash flows from operating activities	-32,014	-93,687
Addition of intangible assets and property, plant and equipment	-6,199	-22,216
Sale of property, plant and equipment	553	972
Business acquisitions	0	-4,406
Dividends received	18,303	117,321
Cash flows from investing activities	12,657	91,671
Contracting long-term liabilities	10,000	0
Leasing activities	-3,870	-3,259
Capital movement	98	-365
Cash flows from financing activities	6,228	-3,624
Net cash flows for the year	-13,129	-5,640
Cash and cash equivalents at 1 January	-15,336	20,976
Cash and cash equivalents at 31 December	2,207	15,336

The cash flow statement cannot be directly derived from the other components of the consolidated financial statements.

Cash at bank and in hand	2,207	15,336
Cash and cash equivalents at 31 December	2,207	15,336

Financial statements for the period 1 January – 31 December

Content of notes to the Financial Statements

Note

- 1 Adoption of new and revised International Financial Reporting Standards (IFRS)
- 2 Key accounting estimates and judgements
- 3 Other general accounting policies
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Financial statements for the period 1 January – 31 December

Notes to the Financial Statements

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

In the current year, the company 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 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements. The company has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IFRS 7, IFRS 9 and IAS 39 Interest Rate Benchmark Reform

The amendments to IFRS 9 and IAS 39 Financial Instruments: Recognition and Measurement provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument. These amendments have no impact on the financial statements of the company as the amount of interest rate hedge relationships is limited.

Amendments to IAS 1 and IAS 8 Definition of Material

The amendments provide a new definition of material that states, “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the financial statements of, nor is there expected to be any future impact to the company.

Amendments to IFRS 16 Covid-19 Related Rent Concessions

On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted. This amendment had no impact on the financial statements of the company.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

2 Key accounting estimates and judgements

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.

Impairment test

An estimate is made of the future free net cash flow based on budgets and the strategy and projections for subsequent years. Significant 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.

Fair value

Estimates and judgements used to determine fair value is described in the relevant notes.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

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 reporting class C large.

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 Company.

Consolidation

With reference to section 112 of the Danish Statements Act and to the consolidated financial statements of Frontmatec Group ApS, the Company has not prepared 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 Company's share of the fair value of the identifiable assets and liabilities including deferred tax is recognised as goodwill or negative goodwill.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

3 Other general accounting policies (continued)

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 is recognised to this lower value.

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

3 Other general accounting policies (continued)

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 Consolidated financial statements for the period 1 January – 31 December

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.

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

3 Other general accounting policies (continued)

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 write-downs 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.

Other external expenses

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 write-downs 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 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 adjustment, 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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

3 Other general accounting policies (continued)

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

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 related 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 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 years 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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

3 Other general accounting policies (continued)

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
- 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 labour, etc. directly used in the production process and a portion of the relating production overheads.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

3 Other general accounting policies (continued)

Investments in subsidiaries

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.

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 labour 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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

3 Other general accounting policies (continued)

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.

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 and bank balances, utilised draft facilities 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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

3 Other general accounting policies (continued)

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.

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.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

4 Segment information

DKK'000	2020	2019
Segmentation of revenue		
Domestic	61,962	81,528
Foreign	208,633	345,514
	<u>270,595</u>	<u>427,042</u>
DKK'000	2020	2019
Timing of revenue recognition		
Recognition at single point of time	74,333	97,805
Recognition over time	196,262	329,237
	<u>270,595</u>	<u>427,042</u>

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.

DKK'000	2020	2019
5 Production costs		
Production costs for the year	299,107	395,878
Inventory write-down for the year	961	-1,689
	<u>300,068</u>	<u>394,189</u>
6 Staff costs		
Wages and salaries	92,504	91,973
Pensions	7,122	7,165
Other social security costs	508	848
	<u>100,134</u>	<u>99,986</u>
Average number of full-time employees	<u>157</u>	<u>157</u>
Staff costs are recognised as follows financial statements:		
Production costs	63,771	64,400
Staff costs	36,363	33,337
Special non-recurring costs	0	2,249
	<u>100,134</u>	<u>99,986</u>

Total remuneration to the Executive Board and Board of Directors of DKK 100 thousand are included in staff costs (DK 100 thousand in 2019).

Financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK'000	2020	2019
7 Depreciation, amortisation and impairment losses		
Development completed	3,583	7,473
Acquired intangible assets	69	92
Buildings	1,085	23
Plant and equipment	491	376
Other fixtures and fittings, tools and equipment	568	562
Right-of-use assets	3,621	2,804
	<u>9,417</u>	<u>11,330</u>
8 Other operating income		
COVID-19 related compensation	1,791	0
Profit on sale of property, plant and equipment	88	251
	<u>1,879</u>	<u>251</u>
9 Special items		
Cost of internal restructuring	500	11,254
	<u>500</u>	<u>11,254</u>
10 Financial income		
Dividend	18,303	117,321
Other interest receivable, exchange rate gains and similar income	7	5,924
	<u>18,310</u>	<u>123,245</u>
11 Financial expenses		
Interest expense to subsidiaries	4,979	5,886
Interest expense, exchange rate losses and similar expenses	3,167	8,403
Calculated interest expense for right of use assets	445	338
	<u>8,591</u>	<u>14,627</u>

Financial statements for the period 1 January – 31 December

Notes to the financial statements

DKK'000	2020	2019
12 Tax for the year		
Current tax for last year	44	0
Changes in provision for deferred tax	-23,139	-13,685
	<u>-23,095</u>	<u>-13,685</u>
Specified as follows:		
Tax for the year	-23,384	-13,633
Tax for last year	44	0
Tax on profit/loss	-23,340	-13,633
Tax on changes in OCI	245	-52
	<u>-23,095</u>	<u>-13,685</u>
Reconciliation of tax rate:		
Tax according to Danish tax rate	-19,038	11,660
Non-taxable income and non-deductible costs	-4,101	-25,345
Adjustments of current tax regarding previous years	44	0
	<u>-23,095</u>	<u>-13,685</u>
Effective tax rate	<u>-37.1 %</u>	<u>-25.7 %</u>

Financial statements for the period 1 January – 31 December

Notes to the financial statements

13 Intangible assets

DKK'000	Development completed	Acquired intangible assets	Development in progress	Total
Cost price				
Cost at 1 January 2020	61,541	19,009	14,978	95,528
Transfer	5,788	0	-5,788	0
Additions in the year	0	179	4,280	4,459
Disposals in the year	0	-291	-185	-476
Cost at 31 December 2020	67,329	18,897	13,285	99,511
Amortisation and write-downs				
Balance at 1 January	53,451	18,662	0	72,113
Transfer	0	0	0	0
Amortisation in the year	3,583	69	0	3,652
Disposals in the year	0	0	0	0
Balance at 31 December 2020	57,034	18,731	0	75,765
Carrying amount at 31 December 2020	10,295	166	13,285	23,746
Cost price				
Cost at 1 January 2019	53,543	18,766	8,520	80,829
Transfer	7,998	0	-7,998	0
Additions in the year	0	243	15,371	15,614
Disposals in the year	0	0	-915	-915
Cost at 31 December 2019	61,541	19,009	14,978	95,528
Amortisation and write-downs				
Balance at 1 January	45,978	18,570	0	64,548
Transfer	0	0	0	0
Amortisation in the year	7,473	92	0	7,565
Disposals in the year	0	0	0	0
Balance at 31 December 2019	53,451	18,662	0	72,113
Carrying amount at 31 December 2019	8,090	347	14,978	23,415

The management performs an impairment test of the carrying amount if there are indicators of impairment. In the review of other non-current assets there were no evidence of impairment.

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

Financial statements for the period 1 January – 31 December

Notes to the financial statements

14 Property, plant and equipment

DKK'000	Land and buildings	Plant and machinery	Other fixtures and fittings, tools and equipment	Total
Cost price				
Cost at 1 January 2020	4,395	9,135	9,007	22,537
Additions in the year	1,095	521	124	1,740
Disposals in the year	0	0	-77	-77
Cost at 31 December 2020	5,490	9,656	9,054	24,200
Amortisation and write-downs				
Balance at 1 January	23	7,125	7,331	14,479
Amortisation in the year	1,085	491	568	2,144
Disposals in the year	0	0	0	0
Balance at 31 December 2020	1,108	7,616	7,899	16,623
Carrying amount at 31 December 2020	4,382	2,040	1,155	7,577
Cost price				
Cost at 1 January 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 December 2019	4,395	9,135	9,007	22,537
Amortisation and write-downs				
Balance at 1 January	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	-2,402
Balance at 31 December 2019	23	7,125	7,331	14,479
Carrying amount at 31 December 2019	4,372	2,010	1,676	8,058

Financial statements for the period 1 January – 31 December

Notes to the financial statements

15 Right-of-use assets

DKK'000	Land and buildings	Fixtures and fittings, tools and equipment	Total
Balance at 1 January 2020	8,722	1,632	10,354
Additions in the year	4,436	3,177	7,613
Re-measurement of leading debt	681	0	681
Depreciation in the year	-2,185	-1,436	-3,621
Balance at 31 December 2020	11,654	3,373	15,027
Balance at 1 January 2019	616	2,947	3,563
Additions in the year	9,963	347	10,310
Re-measurement of leading debt	0	-715	-715
Depreciation in the year	-1,857	-947	-2,804
Balance at 31 December 2019	8,722	1,632	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.

Management estimate for the expected use of right-of-use assets with no defines expiry date a range of 1.5 to 5 years was applied.

Leases does not include variable lease payments.

DKK'000	2020	2019
Depreciation expense on right-of-use assets	3,621	2,805
Interest expense on lease liabilities	445	298
	4,066	3,103
Total cash outflow for leases	3,870	3,259

Financial statements for the period 1 January – 31 December

Notes to the financial statements

16 Investments in subsidiaries

DKK'000	2020	2019
Cost at 1 January	237,447	233,041
Additions in the year	0	4,406
Cost at 31 December	237,447	237,447
Impairment at 1 January	-111,555	-111,555
Additions in the year	0	0
Impairment at 31 December	-111,555	-111,555
	125,892	125,892

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

The management performs an impairment test of the investment in subsidiaries if there are indicators of impairment. In the review of investment in subsidiaries there were no evidence of impairment.

17 Inventories

DKK'000	2020	2019
Raw materials and consumables	36,402	39,731
Work in progress	1,694	1,035
	38,096	40,766

The cost of inventories recognised as an expense includes DKK 1.0 million (2019: Income of DKK 1.7 million) in respect of write-downs of inventory to net realizable value.

Financial statements for the period 1 January – 31 December

Notes to the financial statements

18 Trade receivables

DKK'000	2020	2019
Receivables from sales	30,673	60,379
Write down at 1 January	2,072	222
Addition	0	2,000
Reversals/realised	-2,072	-150
Write-down at 31 December	0	2,072

The average credit period is between 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 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.

19 Contract assets and liabilities

DKK'000	2020	2019
Contractual assets		
Construction contracts	46,744	63,379
Contractual liabilities		
Construction contracts	-40,689	-27,473

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 unconditional prepayments for work not yet performed. The liabilities at 1 January 2020 of DKK 40.7 million (2019: DKK 27.4 million) have been recognised as revenue in 2020 and 2019 respectively.

Significant change 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 15.112 the Company does not disclose information on not-satisfied performance obligations since the construction contract have an activity range of less than one year.

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20 Construction contracts

DKK'000	2020	2019
Selling price of work performed	561,410	578,293
Progress billings	-555,355	-542,387
	<u>6,055</u>	<u>35,906</u>
recognised as follows:		
Contracts assets	46,744	63,379
Contracts liabilities	-40,689	-27,473
	<u>6,055</u>	<u>35,906</u>

21 Deferred tax

Deferred tax relates to:

DKK'000	2020	2019
Intangible assets	-5,187	-5,151
Tangible assets	4,497	4,334
Current assets	-213	-19,297
Liabilities	609	255
Tax loss carry forwards	34,622	34,662
Deferred tax at 31 December	<u>34,328</u>	<u>14,803</u>
recognised as follows:		
Deferred tax assets	<u>34,328</u>	<u>14,803</u>

Carry forward losses are recognized based on the expected utilization within 3-5 year.

22 Share capital

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

DKK'000	2020	2019
1 January	9,922	9,922
31 December	<u>9,922</u>	<u>9,922</u>

At December 31, 2020, the Company owns own shares corresponding to 10.14% of the share capital.

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23 Long-term liabilities

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

DKK'000	Due between 1 and	Due after more	Total long-term	Due within	Total 31/12 2020
	5 years	than 5 years	liabilities at 31/12 2020	1 year	
Lease liabilities	11,498	0	11,498	3,771	15,269
	11,498	0	11,498	3,771	15,269
DKK'000	Due between 1 and	Due after more	Total long-term	Due within	Total 31/12 2019
	5 years	than 5 years	liabilities at 31/12 2019	1 year	
Lease liabilities	7,494	454	7,948	2,452	10,400
	7,494	454	7,948	2,452	10,400

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

24 Provisions

DKK'000	2020	2019
Warranties at 1 January	2,200	1,727
Utilised during the year	-3,074	-1,727
Reversal	0	0
Provision for the year	3,511	2,200
Warranties at 31 December	2,637	2,200

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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 deed over chattels is granted by Frontmatec Kolding A/S for 15.0 DKK million.

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

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

Prepayment guarantees and performance bonds provided to customers amount to DKK 22.4 million.

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 the 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 and RUB.

An increase of 5% in a given exchange rate against DKK would in 2020 have had the following impact on the consolidated profit for the year and equity.

DKK'000	EUR	USD	CAD	CNY	RUB
Profit/Loss	2,329	-5,845	4,155	-32	-3
Equity	1,994	-2,158	12,449	-306	-9

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 intercompany accounts and the interest-bearing liabilities mainly consist of bank debt and intercompany accounts. Interest rate risks occur when interest rate levels change. A 1% increase in the interest rate will have a DKK 1.215 thousand effect on the Company's interest expenses.

Price risk

The Company has a lower 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.

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26 Financial risks (continued)

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 related to financial assets corresponds to the accounting value plus write-downs.

27 Derivatives

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:

DKK'000	2020	2019
Fair value	-589	1,877
Included in the income statement	-589	1,877

The contract notional amount on the forward exchange contracts are:

	2020	2019
DKK/USD	27,830	27,913
Included in the income statement	0	0

Cash-flow hedge

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

DKK'000	2020	2019
Fair value	22	-2,239
Included in other comprehensive income	0	0

The contract notional amount on the forward exchange contracts are:

DKK'000	2020	2019
AUD/DKK	2,926	38,339
USD/DKK	38,940	3,688

Expected recognition for the hedges are in 2021.

At 31 December 2020 the fair value of the Company's hedge instruments amounted to DKK -0.6 million (2019: DKK -0.4 million).

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28 Related parties

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% voting rights or minimum 5% of the share capital:

- ▶ Frontmatec Group ApS, Platinvej 8, DK-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
Jakob Bech Lauritsen	None
Thomas Nybo Stenager	Chairman of the supervisory board Frontmatec Smørum A/S Member of the supervisory board Frontmatec Skive A/S Member of the supervisory board Frontmatec Tandslet A/S CFO Frontmatec Group ApS
Morten Albin Olsen	Member of the supervisory board Frontmatec Smørum A/S Member of the supervisory board Frontmatec Skive A/S Member of the supervisory board Frontmatec Tandslet A/S
Kurt Godsk Andersen	Chairman of the supervisory board Brüel Systems A/S Chairman of the supervisory board BS Holding 2015 A/S Member of the supervisory board Frontmatec Smørum A/S Member of the supervisory board Frontmatec Skive A/S CEO Frontmatec Skive A/S CEO Frontmatec Smørum A/S CEO Andersen Advice ApS
Finn Ejsing Andreasen	Employees representative
Kurt Karlsen	Employees representative

30 Fees paid to auditors appointed at the annual general meeting

DKK'000	2020	2019
Total fees to Deloitte		
Fee for statutory audit	181	274
Other assurance engagements	0	0
Fee for tax advice	80	5
Fee for non-audit services	225	84
	486	363

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31 Incentive programmes

The Company's executive management, and a number of key employees 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 2020 is DKK 0.1 million. The value of the lapsed warrants in 2020 is DKK 0 million. The value of exercised warrants in 2020 is DKK 0 million. The total value of the allotted warrants as of 31 December 2020 are DKK 0.1 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)	25.00%
Risk-free interest	0.00%
Market value at the time of establishment	DKK 12.3 million
Expiry (number of years)	2.67

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
Jan-2020	1 January 2025 to 1 February 2025	1 January 2027 to 1 February 2027
Feb-2020	1 February 2005 to 1 March 2025	1 February 2027 to 1 March 2027
Feb-2020	1 April 2025 to 1 Maj 2025	1 April 2027 to 1 May 2027

Number of warrants

	A2 warrants	B warrants
1 January 2020	0	0
Allotted in 2020	10,417	5,208
Lapsed in 2020	0	0
31 December 2020	10,417	5,208

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32 Reconciliation of financing activities

	2019	Cash flows	2020
Short-term credit institutions	0	10,000	10,000
	2018	Cash flows	2019
Short-term credit institutions	2,858	-2,858	0

33 Events after the balance sheet date

There have been no events since 31 December 2020, which could significantly affect the evaluation of the Company's activities and financial position.

34 New standards and interpretations issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

Amendments to IAS 1: Classification of Liabilities as Current or Non-current

In January 2020, the IASB issued amendments to paragraphs 69 to 76 of IAS 1 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- What is meant by a right to defer settlement
- That a right to defer must exist at the end of the reporting period
- That classification is unaffected by the likelihood that an entity will exercise its deferral right
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Company is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Reference to the Conceptual Framework – Amendments to IFRS 3

In May 2020, the IASB issued Amendments to IFRS 3 Business Combinations - Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

The Board also added an exception to the recognition principle of IFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, the Board decided to clarify existing guidance in IFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.

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33 New standards and interpretations issued but not yet effective (Continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have any impact on the Company.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37

In May 2020, the IASB issued amendments to IAS 37 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. The Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

IFRS 9 Financial Instruments – Fees in the ‘10 per cent’ test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to IFRS standards process the IASB issued amendment to IFRS 9. The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted. The Company will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Company.