



PENNEO™

Annual Report
2020



Penneo accelerates ARR growth rate from 40% in 2019 to 48% in 2020 and reaches 37M DKK ARR

Company Announcement No. 7-2021
Copenhagen, 25 March 2021

Financial report for the period
1 January 2020 - 31 December 2020

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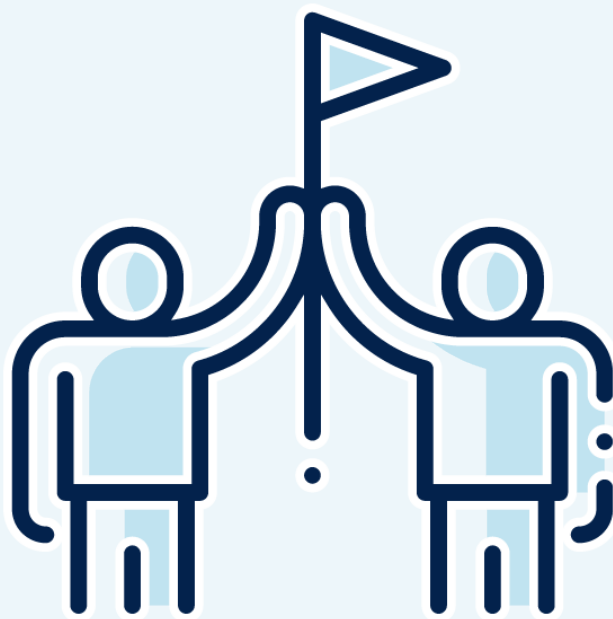
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Management commentary



Vision

A world where being accountable for the way you do business is a matter of course

Mission

We want to make it easy and beneficial to companies to meet regulatory compliance requirements

Equity story

Penneo is a Danish ARR-driven software-as-a-service (SaaS) company and a market leader in software for the audit and accounting industry in the Nordic countries.

Penneo is a scalable platform that provides automation features across multiple aspects of digital transactions and digitises company workflows related to client onboarding (KYC), digital signing, and document management in a compliant, efficient, and easy way.

The rapid growth of digitisation in Europe and the strong network effects provided by international Big10 audit customers are powerful enablers and distribution channels for Penneo to become the de facto standard for the audit and accounting industry in Europe. Through the auditor, Penneo will be exposed to the auditors' clients locally and globally.

Penneo taps into the global trends of increased regulations, sustainability, and digitisation.

Chairman's statement

// 2020 has been a historic year for Penneo having achieved several strategic milestones: the IPO, the acquisition of CLA Reply, continued high growth in home markets and new market entries.

We are pleased with both the company's financial results and operational performance with an Annual Recurring Revenue of 37M DKK.

We are executing our expansion strategy having entered the Belgian and Finnish markets. We have also solidified our market ownership in the Nordics. New customers are joining us while we are adding value to our existing customers - a solid foundation for our future growth. //

**Morten Elk,
Chairman of the Board**

Business highlights

Annual Recurring Revenue (ARR) grew 48% in 2020 from 25M DKK end of 2019 to 37M DKK end of 2020. The ARR growth rate in 2019 was 40%

Penneo increased average ARR per new customer by 67% in 2020 compared to 2019

Penneo achieved 21% net annual growth from existing customers in 2020 compared to 12% net annual growth in 2019

Further information

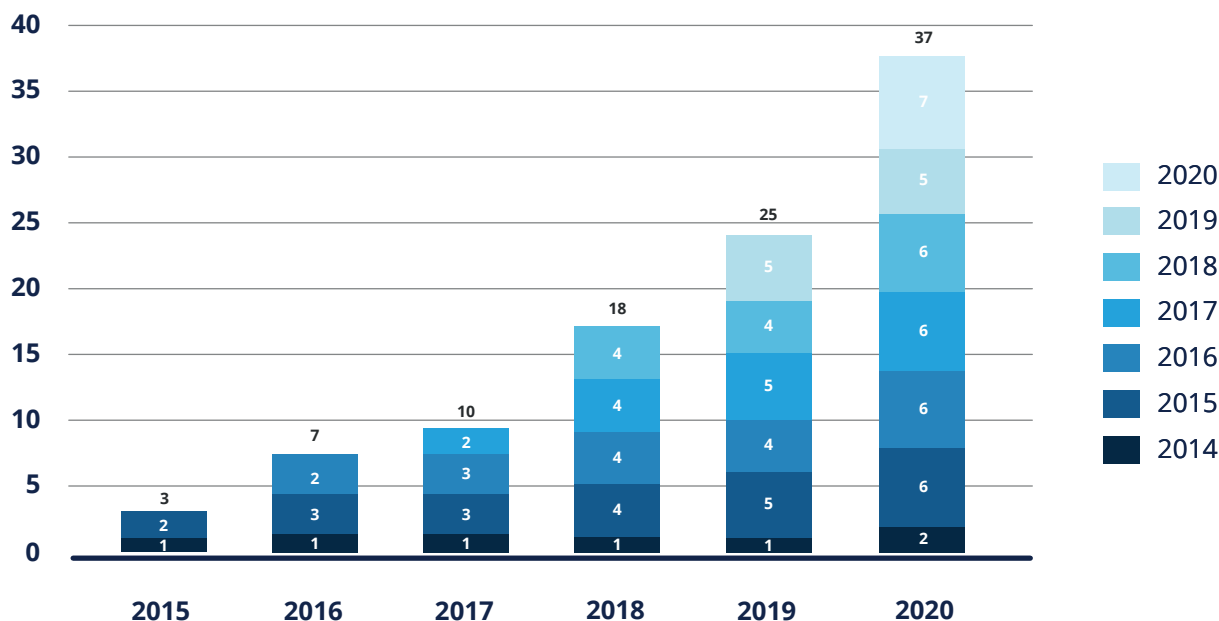
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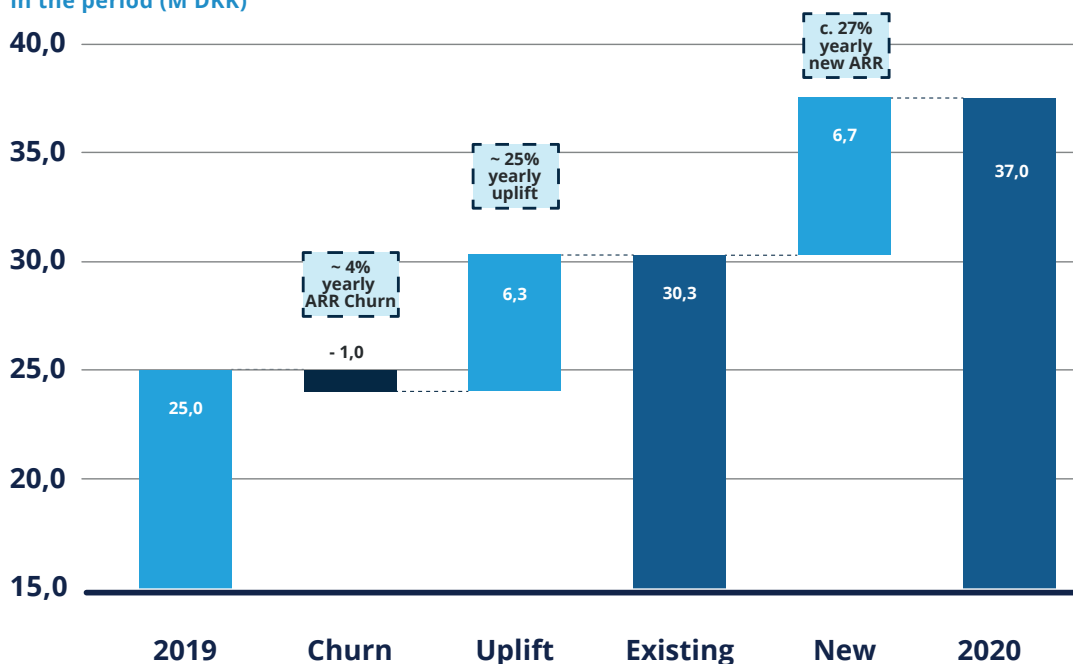
ARR development

The continued development of a strong product portfolio that generates cashflow each year is essential for Penneo, and generates a solid economic foundation for investing into future growth with low risk and high forecasting predictability. The yearly ARR uplift and low yearly ARR churn generate a “net negative churn” of 21%.

Annual Recurring Revenue Development
Yearly cohorts (M DKK)



Annual Recurring Revenue Development
in the period (M DKK)



Penneo dokumentnøgle: 1DY55-KGVII-EUFIK-B6I72-5P51L-35571

Annual Recurring Revenue - the foundation for a SaaS company

A key metric for all SaaS companies is the Annual Recurring Revenue as it expresses the value of a company's client base. Analysts conventionally apply a multiple to the Annual Recurring Revenue when they value a company, because the Annual Recurring Revenue is a measure of how much revenue a company predictably generates going forward based on its current client base.

For SaaS companies, a strong Annual Recurring Revenue also creates a solid economic foundation of predictable cash flows, which enables a company to responsibly invest in future growth.

Annual Recurring Revenue will decrease if a customer churns or downgrades their subscription, while it will increase with the onboarding of new customers or if a customer upgrades their subscription.

Penneo's Annual Recurring Revenue

Penneo's growth in Annual Recurring Revenue is not only based on the ability to attract new customers, but it also comes from existing customers. Over many years, Penneo has had a very low churn rate. Cohort data on Penneo's four-year-old customer base shows average customer revenue growth of ~26% every year.

The customer base at the end of 2019 increased its Annual Recurring Revenue by 21% during 2020, documenting a strong "net negative churn". This is a key strength indicator for leading SaaS companies, and it shows the constantly growing strength of Penneo's product market fit and the value delivered to Penneo's customers.



Business summary

International growth - entering two new markets

In 2020, Penneo successfully integrated the Finnish eID FTN-standard and the Belgian eID Itsme® standard as part of the strategy to roll out Penneo's solution in new markets.

Subsequently, Penneo signed its first audit customer in Finland, Accado, and its first Big10 audit customer in Belgium, VGD.

Home market growth

In 2020, Penneo realised a 25% ARR uplift on existing customers before churn. As announced in Company Announcement no.1 2021, the uplift is attributed to increased platform usage by existing customers. The increased usage is a testament to a rising demand for Penneo's services in a growing market.

The acquisition of CLA Reply

In 2020, Penneo augmented its product offerings through the acquisition of the Anti-Money Laundering (AML) and Know Your Customer (KYC) software from CLA Reply. The software is currently being rolled out to Penneo's existing and new customers across verticals and markets. The KYC software is expected to contribute to an increase in average revenue per account (ARPA).

IPO

In 2020, Penneo was accepted for trading on Nasdaq First North Growth Market Denmark. The proceeds from the listing are being invested in accordance with Penneo's internationalisation strategy to become the de facto standard for the audit and accounting industry in Europe.

Events after the financial year

Rikke Stampe Skov elected as new Board member

At the extraordinary general meeting on 5 March 2021, Rikke Stampe Skov was elected as member of the Board of Directors.

As an independent board member, Rikke will bring a diverse business perspective and augment the existing composition of expertise and competencies in Penneo.

Christian Sagild proposed as new member of the Board for the purpose of being elected new Chairman

Chairman of Penneo Morten Elk has decided to step down as chairman of Penneo due to lack of time. Consequently, as announced in Company Announcement no. 4-2021, Penneo proposed Christian Sagild as new member of the Board of Directors for being elected new Chairman of Penneo following the AGM on 28 April 2021.

Christian Sagild holds significant experience from large listed companies and in managing external stakeholders.

Christian Stendevad appointed new CEO of Penneo

As announced in Company Announcement no. 5-2021, Christian Stendevad has been appointed new CEO of Penneo. Christian Stendevad will start as CEO on 1 October 2021 at the latest.

Christian Stendevad's background includes positions as Managing Consultant in PwC, and COO in Omada. Christian has a successful track record of co-heading the international scaling and growth of Omada over the past 17 years.

Outlook for 2021

Guidance

In 2021, Penneo expects continued growth in ARR.

- For the first half-year of 2021, Penneo expects ARR in the level of 41-45M DKK, as announced in Company Announcement no. 1-2021
- For the entire year 2021, Penneo expects ARR at the level of 52-57M DKK

Consequently, the ARR growth rate for 2021 is expected to be at the level of 40%-56%.

Fulfilment of the ARR guidance depends on the following key drivers and assumptions to continue:

- A continued low customer churn rate
- A continued level of engagement with the platform
- A continued ability to obtain new customers across industries and markets

In 2021, Penneo continues to invest in long-term ARR growth in accordance with the announced expansion strategy in the IPO document.

Consequently, Penneo expects a negative EBITDA at the level of 15-20M DKK.

Deviations from the guided range depend on investments in new strategic opportunities that align with the announced expansion strategy.

The guided EBITDA is based on the following key assumptions:

- Continued investments in the announced use of proceeds from the IPO i.e. investments in product development and Sales and Marketing activities
- Non cash-related items in relation to grants of warrants of 6,3M DKK

In 2021, Penneo expects to continue its focus and execution on internationalisation through new market entries and rolling out the recently acquired KYC software to auditors across the Nordic countries and Europe. The KYC software is a strong strategic addition to the product offerings and expands the total addressable market for Penneo's full-service end-to-end platform. Additionally, Penneo expects increasing traction in the audit market in Finland and Belgium, while the home markets are expected to support growth in both the audit and enterprise verticals.

Forward-looking statements

Statements about the future expressed in the annual report reflect Penneo's current expectations for future events and financial results. The nature of these statements is affected by risk and uncertainties. Therefore, the company's actual results may differ from the expectations expressed in the management report.

Particular risks

Industry risks

The markets for Digital Identity, Digital Transaction Management, and Business Process Automation are characterised by fierce competition. Some competitors in these markets are large global players with extensive market reach. Penneo's strong presence as the Nordic market leader in the audit industry and the deep adaptation to the vertical combined with the relatively high switching costs that accounting firms have to pay for corporate software solutions, mitigate the risk of strong direct competition significantly.

However, there is a risk that other market players will begin to offer solutions targeted at accounting firms. In that case, Penneo risks losing market shares to competitors or risks being forced to enter into a price war with competitors.

Operational risks

Penneo's most valuable assets are indisputably the human capital, the customers and the Software as a Service 'SaaS' products that Penneo delivers. One of the highest priorities is how Penneo maintains the accountability supporting the customers' expectations in relation to compliance, security and privacy needs using Penneo's services.

To mitigate the operational risks in the business and to fulfil the necessary requirements as a SaaS provider - Penneo uses the International Organization for Standardization ISO 31000 (Risk Management framework) as the primary tool and inspiration managing the risk approach and guidelines when Penneo on an ongoing basis evaluates and assesses the various risks and threats in the market.

Penneo's anchored risk management approach assists in maintaining and aligning the Information Security Management System 'ISMS' where Penneo finds the inspiration in ISO 27001 which is an internationally acknowledged and approved security framework that helps Penneo address and implement all necessary security policies and security controls supporting Penneo's SaaS deliverables.

To support the security in Penneo's customer services and be as transparent as possible Penneo issues on a yearly basis an ISAE 3000 type II report signed by an independent system auditor. As a part of the business, Penneo has engaged Amazon Web Services (AWS), which is one of the highest-ranking IT security hosting partners available. Penneo receives a security and compliance report (SOC 2 report) from AWS twice a year - which is reviewed by Penneo's internal Security & Compliance department and further by the independent system auditor as a part of the performed external system audit.

Corporate governance

Penneo dokumentnøgle: 1DY55-KGVII-EUFIK-B6I72-5P51L-35571

Company information

The company

Penneo A/S

Enghavevej 40

DK-1674 Copenhagen V

Business Registration No.: 35 63 37 66

Registered office: Copenhagen

Date of incorporation: 09.01.2014

Financial year: 01.01.2020 - 31.12.2020

Board of Directors

Morten Kenneth Elk

Michael Moesgaard Andersen

Rikke Stampe Skov

Executive Board

Interim CEO, Nicolaj Højer Nielsen

CTO, Jan Flora

Auditors

Deloitte Statsautoriseret Revisionspartnerselskab

Executive Board



Nicolaj Højer Nielsen

Interim CEO since 28.09.2020

Profession: Professional board member

Description: Nicolaj Højer Nielsen is a serial entrepreneur, board member, and business angel and has been building startups since 1999. He has co-founded and/or invested in thirteen companies within IT and biotech. Nicolaj Nielsen holds an MBA from INSEAD and an MSc in Marketing from Copenhagen Business School and is an external lecturer within entrepreneurship at Copenhagen Business School.

Other key positions: External lecturer at Copenhagen Business School, Board member in InProTher, Board member in Forgotten Anne, Board member in Meet-inVR, Board member in Motilitycount, Board member in Estaldo, CEO in Copenhagen United.

Educational background: HA, Aalborg Universitet, cand.merc., Copenhagen Business School, MBA, INSEAD

Through BIOSTRAT BIOTECH CONSULTING ApS, Nicolaj Højer Nielsen owns 2,890,829 shares in Penneo A/S.



Jan Flora

CTO since 09.01.2014

Profession: CTO at Penneo

Description: Jan Flora is one of the co-founders of the company. Jan Flora has since the foundation of the company been the spearhead of product development, innovation, and development of new markets. Jan has had experience with other tech companies before co-founding Penneo in 2014.

Educational background: Msc In Computer Science, University of Copenhagen, Bsc In Mathematics and Computer Science, University of Copenhagen.

Through Flora IT ApS, Jan Flora owns 2,327,427 shares in Penneo A/S.

Jan Flora privately holds 787,029 warrants in Penneo A/S.

Board of Directors



Morten Kenneth Elk

Chairman since 23.01.2019

Profession: CEO of SimpleSite

Description: Morten Elk is a serial entrepreneur, board member and business angel. He started his career in 1997 after leaving a postdoctoral position in Physics to co-found what became a leading Danish digital agency that was exited to Swedish Adcore in 1999. In 2003, Morten Elk co-founded SimpleSite, a global player in the DIY website building services, where he remains the CEO today. Alongside, Morten Elk has invested in several start-ups and is the initiator and driver behind the event series Nordic Growth Hackers.

Other key positions: Chairman of the Board at Tibalo ApS, CEO Kunai Ads ApS.

Educational background: Ph.D. Physics, University of Copenhagen.

Independent of the Company.

Morten Kenneth Elk privately owns 18,083 shares in Penneo A/S.

Morten Kenneth Elk privately holds 283,167 warrants in Penneo A/S.



Michael Moesgaard Andersen

Board member since 29.12.2019

Profession: CEO Andersen Advisory Group A/S

Description: Michael Moesgaard Andersen is a serial entrepreneur, board member and business angel. Michael Moesgaard founded and sold CBB Mobil and has been active in numerous other tele and SaaS startup companies through his company Andersen Advisory Group A/S. Michael Moesgaard is an adjunct professor at Copenhagen Business School.

Other key positions: Adjunct professor at Copenhagen Business School, Owner of Andersen Advisory Group A/S, Board member in Konsolidator A/S, Chairman of board in Qemploy A/S, Chairman of board in Danske Færdighedsspil A/S, Board member of Configit build A/S, Chairman of board of Valuer Holding A/S, Chairman of board in Mobilepeople solutions A/S, Board member in ITU Business Development A/S, Board member in Agillic A/S.

Educational background: Msc Cand.scient.pol, Aarhus University, Graduate diploma (HD), Copenhagen Business School

Independent of the Company.

Through Andersen Advisory Group A/S, Michael Moesgaard Andersen owns 3,164,744 shares in Penneo A/S.



Rikke Stampe Skov

Board Member since 05.03.2021

Profession: CEO of Impero A/S

Description: Rikke Stampe Skov is the CEO of Impero A/S, a position, which she has held since June 2018. Rikke drives the company's vision of creating trust and transparency on a global scale. Prior to joining Impero, Rikke Stampe Skov spent several years as a partner in PwC co-chairing the Risk Assurance Services service line, and later as a partner with Odgers Berndtson, where Rikke Stampe Skov focused on executive search and leadership development. Before this, Rikke co-founded the IT security consulting company, Protego, which was successfully exited to PwC in 2006.

Other key positions: CEO at Impero, Chairman of the Board at Union Bulk, member of Board of Representatives at Forenet Kredit, Board member at VL64.

Educational background: Board Master Class (CBS), HD(O) (CBS), HA(jur.) (CBS).

Independent of the Company.

Rikke Stampe Skov holds no shares in Penneo A/S.

Board composition

Once a year, the Board of Directors will conduct a self-evaluation to ensure that the Board promotes the Company's purpose and serves the culture and values of the Company. As of 31 December 2020, the Board of Directors consists of three members.

To ensure constructive and value-creating discussions, the Board of Directors aims at ensuring the right composition and balance of competencies in the Board. Consequently, it is the mission of the Board of Directors to augment the competencies within scaling and internationalisation of SaaS businesses while also looking to organise itself with Board members that hold solid experience and a strong track record from large listed companies.

Process and conclusions on the Board evaluation

The Board evaluation includes all members of the Board of Directors and the Executive Board, and the Chairman of the Board is responsible for conducting the Board evaluation. The Board of Directors adjusts the composition of the Board based on the results of the Board evaluation and in accordance with the competency profile mentioned above. The Board agreed to continue to focus on contributing to the long-term and strategic value-creation of the Company.

*The Company's Corporate Governance Statement is available on the Company's website:
www.penneo.com/investors*

ESG

Penneo is committed to supporting the UN's Sustainable Development Goals (SDGs).

Penneo is actively working with and supporting UN's 12th and 15th SDGs, "Responsible Consumption and Production" and "Life on Land", respectively. On a global level, the progress of SDG 12 has been disappointing. The consumption of materials worldwide has increased significantly from 8 tons of natural resources used to satisfy a person's need in 1990 to almost 12 tons per person in 2015. The UN has suggested policies to improve resource efficiency, reduce waste and streamline sustainability practices across all sectors of the economy.

Penneo's solution removes the need for physical documents, which helps companies increase resource efficiency, reduce waste, and thus generally make business practices more sustainable. SDG 15 targets protection of terrestrial ecosystems and biodiversity. Forests cover 30% of Earth's surface and are an essential part of the ecosystem. Penneo's platform is based on a completely paper-free vision and will thus contribute to the implementation of sustainable business practices and help reduce deforestation by reducing global demand for paper.



Diversity policy

Penneo is dedicated to encouraging a supportive and inclusive culture amongst the entire workforce. It is in our best interest to promote diversity and eliminate any kind of discrimination in the workplace.

This policy is reviewed and approved annually by the Board of Directors to ensure that equality and diversity are continually promoted in the workplace.

This policy reinforces our commitment to providing equality and fairness to all in our employment and not provide less favourable facilities or treatment on the grounds of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, ethnic origin, colour, nationality, national origin, religion or belief, or sex and sexual orientation. We are opposed to all forms of unlawful and unfair discrimination.

All employees, no matter whether they are part-time, full-time, or temporary, will be treated fairly and with respect. When Penneo selects candidates for employment, promotion, training, or any other benefit, it will be on the basis of their aptitude and ability.

Objectives

The objectives of this policy are to ensure that:

- Penneo complies with section 139 c of the Danish Companies Act
- Penneo follows the recommendations on Corporate Governance
- Penneo follows the Danish Business Authority's guidelines on equal gender distribution on the Board of Directors
- Penneo protects our most valuable asset, our human capital
- All employees and job applicants are given equal opportunity
- Penneo remains an attractive workplace for all employees and aspires to foster, cultivate and preserve a culture of diversity, equality and inclusion

Requirements

With this policy we commit as a company:

- To create an environment in which individual differences and the contributions of all team members are recognised and valued.
- To create a working environment that promotes dignity and respect for every employee.
- To not tolerate any form of intimidation, bullying, or harassment, and to discipline those that breach this policy.
- To make training, development, and progression opportunities available to all staff members.
- To promote equality in the workplace, which we believe is good management practice and makes sound business sense.
- To encourage anyone who feels he/she have been subject to discrimination to raise his/her concerns so we can apply corrective measures.
- To encourage employees to treat everyone with dignity and respect.
- To regularly review all our employment practices and procedures so that fairness and equal opportunity are maintained at all times.
- To have an equal distribution of men and women on the Board of Directors, hence the least represented gender on the Board should comprise no less than 40% in accordance with the Danish Business Authority's guidelines on equal gender distribution on the Board of Directors.

Penneo will inform all employees that a diversity policy is in operation and that they are obligated to comply with its requirements and promote fairness in the workplace. Further, this policy will be publicly available on the company website.

Statement by Management

The Board of Directors and Executive Board have today considered and approved the annual report for the financial year 01.01.2020 – 31.12.2020 for Penneo A/S.

The financial statements have been 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 Penneo's assets, liabilities and financial position as at 31.12.2020 and of the results of Penneo's activities and cash flows for the financial year 01.01.2020 – 31.12.2020.

We believe that the management commentary contains a fair review of the affairs and conditions referred to therein.

The annual report is submitted for adoption at the Annual General Meeting on 28.04.2021.

Copenhagen, 25.03.2021

Executive Board

Interim CEO, Nicolaj Højer Nielsen
CTO, Jan Flora

Board of Directors

Morten Kenneth Elk

Rikke Stampe Skov

Michael Moesgaard Andersen

Independent auditor's report

To the shareholders of PENNEO A/S

We have audited the financial statements of Penneo A/S for the financial year 01.01.2020 - 31.12.2020, which comprise the income statement, balance sheet, statement of changes in equity 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 Penneo's financial position at 31.12.2020, and of the results of their operations and cash flows for the financial year 01.01.2020 - 31.12.2020 in accordance with International Financial Reporting Standards as adopted by the EU and additional requirements of the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the Auditor's responsibilities for the audit of the consolidated financial statements and the parent financial statements section of this auditor's report. We are independent of Penneo 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 financial statements do 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 Penneo's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the consolidated financial statements and the parent financial statements unless Management either intends to liquidate Penneo 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 Penneo'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 Penneo'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 Penneo 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 entities or business activities within Penneo to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Copenhagen, 25.03.2021

Deloitte

Statsautoriseret Revisionspartnerselskab
CVR-nr.: 33963556

Bjørn Winkler Jakobsen
State-Authorised Public Accountant
MNE-nr. mne32127

Mads Juul Hansen
State Authorised Public Accountant
MNE-nr. mne44386

Financial Statements

Penneo dokumentnøgle: 1DY55-KGVII-EUFIK-B6I72-5P51L-35571

Financial statements

Key financial figures

	2020 DKK	2019 DKK
Revenue	35,533,705	27,597,283
Cost of sales	(7,014,327)	(5,352,122)
Other external expenses	(8,614,354)	(4,604,246)
Staff costs	(28,644,140)	(16,810,195)
EBITDA*	(8,739,116)	830,720

*Other operating expenses regards fundraising which amounted to DKK 2,304k in 2020 and DKK 434k in 2019. The amounts are not included in the EBITDA, since they are not a part of Penneo's normal operations.

Statement from the CFO

- Casper Nielsen Christiansen

Adopting IFRS: Professionalizing Penneo

Penneo has changed accounting policies and is now adopting the IFRS standard to firstly, professionalize and augment the financial structure and backbone of Penneo and secondly, to promote financial transparency and analyzing Penneo in an international context.

As this is the first time adopting IFRS in our financial statements, please find 'Statement of Changes in Equity (p.40-41 below)' for the transition from the adjusted financial statements in the 2019 Annual report.

EBITDA: Investing in long-term ARR growth

The financial year 2020, resulted in a negative EBITDA of DKK 8,739K, compared to a positive EBITDA of DKK 831k in 2019. The result is in alignment with Management's expectations and in accordance with the growth strategy put forth in the IPO document of June 2020, which is now in execution.

The strategy prescribes investing into product development and commercial activities to build a globally scalable audit software. Penneo has increased its ARR growth rate from 38% in 2018 to 40% in 2019 and now to 48% in 2020, thus continuing on a solid growth path for ARR. The ARR growth is a testament to the initial success and results of the execution on the internationalisation strategy, through which Penneo focuses on long term ARR growth and shareholder value. Investing in growing the team and an international distribution channel through auditors, will on the short term generate a negative EBITDA, but will on the long term strengthen the profitability and position in the market.

Financial review

Recognized revenue

During 2019 and earlier, Penneo had another product mix and invoiced and recognized revenue up front for longer, consecutive subscription periods. Today, Penneo is a truly ARR-driven company where revenues is annualized and recognized over a shorter deal length. Notwithstanding the fact that the recognized revenues from 2019 to 2020 therefore does not compare well because of this transition, a considerable growth materialized (29%). A like-for-like comparison of the ARR displays a growth from 2019 to 2020 of 48%.

Other external expenses

Other external expenses reached DKK 8,614k in 2020 compared to 4,604k in 2019. The increase is mainly due to an increased Marketing spent, in accordance with the 'use of proceeds' of the IPO document. Additionally, the increase is also due to changes made to facilitate the growth and internationalization of Penneo, e.g. investments in and maintenance of new ERP and CRM systems and hardware.

Staff costs

Aligned with the use of proceeds from the IPO document, Penneo invested heavily in hirings related to sales-, marketing- and software development. Penneo wants to take advantage of its position in Scandinavia and use it for an internationalization and growth journey through auditors in Europe. At the end of 2020, Penneo had 82 employees compared to 42 employees at the end of 2019. Consequently, staff costs have grown 70% from DKK 16,810k in 2019 to DKK 28,644k in 2020.

Other operating expenses

Other operating expenses totalled DKK 2,304k in 2020 compared to DKK 434k in 2019. Operating expenses in 2020 are primarily related to the IPO.

Net financial items

Net financials totalled an expense of DKK 1,046k in 2020 compared to DKK 518k in 2019. Financial expenses consist primarily of interest expenses on loans, bank interest and loss on exchange rate adjustments.

Income tax benefit

Income tax benefit totalled DKK 4,488k in 2020 compared to DKK 21k in 2019. Income tax benefits for both the years 2020 and 2019 relate primarily to tax credit for research and development expenses at the applicable tax rate under the Danish Corporate Income Tax Act.

Statement of financial position

Intangible assets

As of December 31, 2020, Penneo had intangible assets of DKK 35,256k compared to DKK 14,318k as of December 31, 2019. The increase is caused by the acquisition of CLA Reply and heavier investments in development projects.

Trade receivables

As of December 31 2020, Penneo had trade receivables of DKK 8,661k compared to DKK 3,461k as of December 31 2019. The invoicing in 2020-12 has been 68% higher than 2019-12 in addition to that, Penneo has granted an extension of the payment deadline for a few customers. As a consequence, the trade receivables increased by 150% in total.

Cash and cash equivalents

As of December 31, 2020, Penneo had cash and cash equivalents of DKK 31,843k compared to DKK 8,217k as of December 31, 2019. The increase is primarily due to the IPO.

Equity

As of December 31, 2020, equity amounted to DKK 57,576k compared to DKK 8,955k in 2019. The increase is primarily due to the IPO.

Other payables - non current

Other payables non-current of DKK 2,221k consists of the frozen provision for holiday allowance. Penneo expects to pay this up front in order to lower the administrative tasks and focus.

Other payables - current

As of December 31, 2020, other payables - current amounted to DKK 7,848k compared to DKK 2,807k in 2019. The increase in other payables is mainly caused by the government regulations of the due dates for A tax and labour market contribution, subsequent to the COVID-19 break out. The postponed taxes will be paid over the course of 2021-H1.

Cash flows

Cash flow from operating activities

Net cash flow from operation activities for 2020 showed an outflow of DKK 8,738k compared to DKK 968k in 2019. Net cash flow from operating activities is related to the increase in the operations-related costs (e.g. staff costs, cost of premises, and increased marketing activities) that are being invested in the international expansion of Penneo in accordance with the announced strategy in the IPO document of June 2020.

Cash flow from investing activities

Net cash flow from investing activities amounted to an outflow of DKK 13,439k in 2020 compared to an outflow of DKK 4,696k in 2019. The increase is caused by the acquisition of CLA Reply and heavier investments in development projects.

Cash flow from financing activities

Net cash flow from financing activities amounted to an inflow of DKK 45,802k in 2020 compared to an inflow of DKK 9,681k in 2019. The inflow in 2020 is primarily caused by the IPO.

Statement of profit or loss and other comprehensive income

	Note	2020 DKK	2019 DKK
Revenue	5	35,533,705	27,597,283
Cost of sales		(7,014,327)	(5,352,122)
Other external expenses		(8,614,354)	(4,604,246)
Gross profit		19,905,024	17,640,915
Staff costs	6	(28,644,140)	(16,810,195)
Other operating expenses		(2,303,555)	(434,314)
Depreciation, amortisation, impairment	8	(5,202,220)	(2,554,531)
Operating profit/(loss)		(16,244,892)	(2,158,125)
Financial income	9	93,132	43,414
Financial expenses	10	(1,139,027)	(561,099)
Profit/(loss) before tax		(17,290,786)	(2,675,811)
Tax for the year	11	4,488,137	21,081
Profit/(loss) for the year from continuing operations		(12,802,649)	(2,654,730)
Total comprehensive income for the year		(12,802,649)	(2,654,730)
Attributable to:			
Shareholders of Penneo A/S			
Earnings per share, basic (DKK)	18	(0.65)	(0.47)
Earnings per share, diluted (DKK)	18	(0.53)	(0.36)

Statement of financial position

	Note	31.12.2020 DKK	31.12.2019 DKK	01.01.2019 DKK
Other intangible assets	12	35,256,287	14,317,819	12,796,644
Property, plant and equipment	13	734,739	242,457	28,671
Right-of-use assets	14	15,369,359	10,838,646	684,283
Deposits	15	1,258,700	1,112,672	177,830
Total non-current assets		52,619,085	26,511,594	13,687,428
Trade receivables	16	8,660,841	3,460,894	4,175,441
Income tax receivables		1,964,811	727,491	-
Receivable from affiliated companies		-	21,193	717,769
Other receivables		1,016	41,469	906
Prepayments		800,486	432,180	291,390
Cash		31,842,851	8,217,139	4,199,145
Total current assets		43,270,005	12,900,366	9,384,651
Total assets		95,889,090	39,411,960	23,072,079

Statement of financial position

	Note	31.12.2020 DKK	31.12.2019 DKK	01.01.2019 DKK
Share capital	18	502,615	135,995	108,567
Reserve for development		15,928,604	11,167,899	9,989,181
Retained earnings		35,227,386	(3,891,111)	(6,235,312)
Treasury shares		7,177	-	-
Other capital reserve	19	5,910,269	1,542,693	1,271,146
Total equity		57,576,051	8,955,475	5,133,582
Deferred tax liabilities	11	-	3,405,000	2,659,170
Interest bearing liabilities	20	4,695,526	5,070,430	1,232,776
Provisions	21	432,267	317,796	-
Lease liabilities	14	13,560,555	8,886,782	684,283
Other payables		2,220,843	689,462	-
Contract liabilities	5	447,851	447,851	447,851
Total non-current liabilities		21,357,042	18,817,321	5,024,080
Contract liabilities	5	4,063,593	4,636,042	5,530,266
Lease liabilities	14	2,003,508	1,824,939	-
Trade payables		2,665,906	2,370,974	1,875,891
Payables to affiliated companies	22	66,989	-	24,460
Other payables		7,781,097	2,807,209	4,975,207
Income tax payable		-	-	461,875
Interest bearing liabilities	20	374,904	-	46,718
Total current liabilities		16,995,997	11,639,164	12,914,417
Total liabilities		38,313,039	30,456,485	17,938,497
Total equity and liabilities		95,889,090	39,411,960	23,072,079

Statement of changes in equity

	Share Capital	Reserve for development expenditure	Retained earnings	Treasury shares	Other capital reserve	Total
	DKK	DKK	DKK	DKK	DKK	DKK
2020						
Balance at 1 January	135,995	11,167,899	(3,891,111)	-	1,542,693	8,955,476
Net profit/(loss) for the period	-	-	(12,802,649)	-	-	(12,802,649)
Purchase of own shares	-	-	8,255,021	7,177	-	8,262,198
Capital increase	366,620	-	49,644,554	-	-	50,011,174
Transaction costs	-	-	(3,125,560)	-	-	(3,125,560)
Holding merger	-	-	1,907,836	-	-	1,907,836
Transfer to reserves	-	4,760,705	(4,760,705)	-	-	-
Earn-out clause	-	-	-	-	3,000,000	3,000,000
Share-based payments	-	-	-	-	1,367,576	1,367,576
Balance at 31 December	502,615	15,928,604	35,227,386	7,177	5,910,269	57,576,051
2019						
Balance at 1 January	108,567	8,480,464	(2,513,602)	-	-	6,075,429
Effect of initially applying IFRS	-	(734,638)	(1,478,355)	-	1,271,146	(941,847)
Adjusted equity at January 1	108,567	7,745,826	(3,991,957)	-	1,271,146	5,133,582
Net profit/(loss) for the period	-	-	(2,654,730)	-	-	(2,654,730)
Capital increase	27,428	27,428	6,477,649	-	-	6,505,077
Transaction costs	-	-	(300,000)	-	-	(300,000)
Transfer to reserves	-	3,422,073	(3,422,073)	-	-	-
Share-based payments	-	-	-	-	271,547	271,547
Balance at 31 December	135,995	11,167,899	(3,891,111)	-	1,542,693	8,955,476

Cash flow statement

	Note	2020 DKK	2019 DKK
Operating profit/loss		(16,244,892)	(2,158,125)
Depreciation, amortisation and impairment		5,202,220	2,554,531
Share-based payment expense		1,367,576	271,547
Change in working capital	17	954,105	(729,086)
Income taxes received		727,385	(422,455)
Financial income received		93,132	43,414
Financial expenses paid		(837,249)	(527,397)
Cash flow from operating activities		(8,737,723)	(967,571)
Investments in intangible assets		(8,930,476)	(3,423,528)
Investments in property plant and equipment		(612,085)	(242,454)
Deposits		(146,028)	(1,029,841)
Acquisition of business		(3,750,000)	-
Cash flow from investing activities		(13,438,589)	(4,695,823)
Proceeds from borrowings		5,000,000	4,000,000
Repayment of borrowings		(5,000,000)	(162,346)
Payment of principal portion of lease liabilities		(2,122,058)	(361,343)
Transaction costs from capital increase		(4,095,872)	(300,000)
Cash increase from capital		52,019,954	6,505,077
Cash flow from financing activities		45,802,024	9,681,388
Change in cash and cash equivalents			
Cash 1 January		8,217,139	4,199,145
Net cash flow		23,625,712	4,071,994
Cash 31 December		31,842,851	8,217,139

Notes

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1. Accounting policies

Penneo's financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and additional Danish disclosure requirements for the financial statements of reporting class B enterprises with addition of certain provisions for reporting class C, cf. the Danish Executive Order on Adoption of IFRSs ("IFRS bekendtgørelsen ") issued in accordance with the Danish Financial Statements Act ("DFSA").

Basis of preparation

The financial statements are presented in Danish kroner (DKK). The financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, except where IFRS explicitly requires use of other values.

For the purpose of clarity, the financial statements and the notes to the financial statements are prepared using the concepts of materiality and relevance. This means that line items not considered material in terms of quantitative and qualitative measures or relevant to financial statement users are aggregated and presented together with other items in the financial statements. Similarly, information not considered material is not presented in the notes.

The accounting policies, except as described below, have been applied consistently during the financial year and for the comparative figures.

First-time adoption of IFRS

Penneo's financial statements have for the first time been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and additional Danish requirements for the presentation of financial statements. In previous years, the financial statements were prepared in accordance with the Danish Financial Statements Act for reporting class B. As a result of the transition to IFRS, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

In accordance with IFRS 1 the statement of financial position at 31.12.2019 and comparative figures for 2019 have been prepared in accordance with IFRS/IAS and IFRIC/SIC applicable as per 31 December 2020. Statement of financial position at 1 January 2019 has been prepared in accordance with the same principles.

Exemptions applied

In the preparation of these first IFRS financial statements, the following exemptions have been applied:

Leases:

IFRS allows a first-time adopter to determine whether a contract existing at the date of transition to IFRS contains a lease on the basis of facts and circumstances existing at that date. Also IFRS 1 allows a first-time adopter, that is a lessee, to apply a single discount rate to a portfolio of leases with reasonably similar characteristics. We have utilised this exemption to our lease contracts.

Changes in accounting policies

As a result of first time adoption of IFRS, Penneo has changed its accounting policies for recognition of share-based payments, leases, business combinations, development costs. Penneo has adjusted for the changes in accounting policies in the opening balance of equity at 1 January 2019.

A. Share-based payments

Penneo has established share-based incentive programmes comprising equity-settled programs (warrants) for Key Management Personnel and other key employees. The purpose of these programs is to ensure common goals for Management, key employees and shareholders. According to Danish Financial Statements Act there is no requirement for recognition and measurement on equity-settled programs. Following the adoption of IFRS, IFRS 2 requires that the warrant programs should be recognised at fair value of the equity instruments at the grant date. The fair value excludes the effect of non-market based vesting conditions. Details regarding the determination of the fair value of equity settled share-based transactions are set out in note 7 Share-based payments. An additional expense of DKK 272k has been recognised in profit or loss for the year ended 31 December 2019.

B. Leases

Under DFSA, a lease is classified as a finance lease or an operating lease. Operating lease payments are recognised as an operating expense in the statement of profit or loss on a straight-line basis over the lease term. Under IFRS, a lessee applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets and recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

At the date of transition to IFRS, Penneo applied the transitional provision and measured lease liabilities at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of transition to IFRS. Right-of-use assets were measured at the amount equal to the lease liabilities adjusted by the amount of any prepaid or accrued lease payments. As a result, Penneo recognised an increase of DKK 684k (31 December 2019: DKK 10,712k) of lease liabilities and DKK 684k (31 December 2019: 10.839k) of right-of-use assets.

Additionally, depreciation increased by DKK 519k and finance costs increased by DKK 34k for the year ended 31 December 2019.

C. Development costs

Under DFSA, development costs capitalised included indirect costs, which have to be expensed under IFRS. In 2019, other external expenses increased by DKK 499k, staff costs increased by DKK 1,302k and amortisation decreased by DKK 53k.

The following tables summarise the impact of change in accounting policies and impact from consolidated numbers on Penneo's financial statements for the year ending 31 December 2019.

Impact on income statement and statement of comprehensive income 2019:

Note	2019 as reported under DFSA DKK	Impact from adoption of IFRS DKK	IFRS for the year ended 2019 DKK
Revenue	27,597,283	-	27,597,283
Cost of sales	(5,352,122)	-	(5,352,122)
Other external expenses	B, C (4,466,965)	(137,281)	(4,604,246)
Gross profit	17,778,196	(137,281)	17,640,915
Other operating expenses	(434,314)	-	(571,595)
Staff costs	A, C (15,236,522)	(1,573,673)	(16,810,195)
Depreciation, amortisation, impairment	B, C (1,993,975)	(560,556)	(2,554,531)
Operating profit/(loss)	113,385	(2,271,512)	(2,158,125)
Net financials	B (578,984)	61,298	(517,686)
Profit/(loss) before tax	(465,598)	(2,210,213)	(2,657,811)
Tax for the year	21,081	-	21,081
Profit/(loss) for the year	(444,517)	(2,210,213)	(2,654,730)

Impact on statement of financial position 2019:

	Note	2019 as reported under DFSA DKK	Impact from adoption of IFRS DKK	IFRS for the year ended 2019 DKK
Intangible assets	C	17,007,462	(2,689,637)	14,317,825
Property, plant and equipment		242,457	-	242,457
Right-of-use assets	B	-	10,838,646	10,838,646
Deposits		1,112,672	-	1,112,672
Total non-current assets		18,362,591	8,149,009	26,511,600
Trade receivables		3,460,894	-	3,460,894
Income tax receivables		727,491	-	727,491
Other receivables		41,469	-	41,469
Prepayments		432,180	-	432,180
Cash		8,217,139	-	8,217,139
Total current assets		12,900,366	-	12,900,366
Total assets		31,262,957	8,149,009	39,411,966
Share capital		135,995	-	135,995
Other capital reserve		13,265,820	(11,723,127)	1,542,693
Retained earnings	A, B, C	(1,565,826)	8,842,619	7,276,793
Total equity		11,835,989	(2,880,508)	8,955,481
Provisions	B	-	317,796	317,796
Deferred tax liabilities		3,405,000	-	3,405,000
Interest-bearing liabilities		5,070,430	-	5,070,430
Contract liabilities		447,851	-	447,851
Lease liabilities	B	-	8,886,782	8,886,782
Other payables		689,462	-	689,462
Total non-current liabilities		9,612,743	9,204,578	18,817,321
Contract liabilities		4,636,042	-	4,636,042
Lease liabilities	B	-	1,824,939	1,824,939
Trade liabilities		2,370,974	-	2,370,974
Other payables		2,807,209	-	2,807,209
Total current liabilities		9,814,225	1,824,939	11,639,164
Total liabilities		19,426,968	11,029,517	30,456,485
Total equity and liabilities		31,262,957	8,149,009	39,411,966

Foreign currency translation

Transactions denominated in currencies other than the functional currency are considered transactions in foreign currency.

On initial recognition, transactions denominated in foreign currencies are translated to the functional currency at the exchange rates at the transaction date. Foreign exchange rate adjustments arising between the transaction date and at the date of payment are recognised in the income statement under financial income or financial expenses.

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates at the reporting date. The difference between the exchange rates at the reporting date and at the date of transaction or the exchange rate in the latest financial statements is recognised in the income statement under financial income or financial expenses.

Cash flow statement

The cash flow statement is presented using the indirect method and shows cash flows from operating, investing and financing activities for the year as well as Penneo's cash and cash equivalents at the beginning and end of the financial year.

Cash flows from operating activities are calculated based on operating profit/loss, adjusted for the cash flow effect of non-cash operating items, working capital changes, financial expenses paid and income tax paid.

Cash flows from investing activities comprise payments in connection with the acquisition and sale of non-current intangible assets, property, plant and equipment as well as financial assets.

Cash flows from financing activities comprise payments arising from changes in the size or composition of Penneo's share capital and dividend paid.

Income statement

Revenue

Revenue is recognised exclusive of VAT and taxes and with deduction of any rebates given. Net revenue is allocated to performance elements, where performance elements are training/education, customer access to systems agreed, delivery of any validations and certificates of signatures and to a lesser extent support and storage. Allocation is based on the contract with the customer to the extent possible, but for combined contracts, an estimate is being made for the distribution of sales price to the performance elements. Such allocation to performance elements is based on historical data to the extent possible, with frequent reestimation based on the development in data or other knowledge around tendencies or expected development. The contracts held by Penneo are to a huge extent combined contracts. The main contracts contain three elements: right to use the system, signatures and support.

Cost of sales

Cost of sales comprise costs incurred to achieve the year's revenue.

Other external costs

Other external expenses include expenses relating to Penneo's ordinary activities, including expenses for stationery and office supplies, marketing costs, etc.

Staff costs

Staff costs consist of salaries and wages, share-based payments, and other benefits. Salaries, share-based payments, and other benefits are recognised in the year in which the associated services are rendered by the employees. Contributions to defined contribution plans are recognised in the income statement in the period to which they relate and any contributions outstanding are recognised in the statement of financial position as other liabilities.

Depreciation, amortisation and impairment losses

Depreciation, amortisation and impairment losses relating to property, plant and equipment, intangible assets and right-of-use assets comprise depreciation and amortisation.

Share-based payments

The Board of Directors, the Board of Management and other employees have been granted warrants. The warrants are measured at fair value at the grant date and are recognised as an expense in staff costs over the vesting period. Expenses are set off against equity. The fair value of the warrants is measured using the Black Scholes valuation method or other generally accepted valuation techniques. The calculation takes into account the terms and conditions under which the warrants are granted. Fair value is not subsequently remeasured. If subsequent modifications to a warrant program increase the value of the warrants granted, measured before and after the modification, the increase is recognised as an expense. If the modification occurs before the vesting period the increase in value is recognised as an expense over the period for services to be received. If the modification occurs after the vesting date, the increase in value is recognised as an expense immediately. Consideration received for warrants sold are recognised directly in equity.

Other operating income and expenses

Other operating income and other operating expenses comprise income and expenses of a secondary nature relative to the principal activities of Penneo.

Other financial income

Other financial income comprises dividends etc received on other investments, interest income, including interest income on receivables from group enterprises, net capital or exchange gains on securities, payables and transactions in foreign currencies, amortisation of financial assets as well as tax relief under the Danish Tax Prepayment Scheme etc.

Impairment losses on financial assets

Impairment losses on financial assets comprise impairment losses on financial assets which are not measured at fair value on a current basis. They are included in the line item "depreciation, amortisation and impairment losses".

Other financial expenses

Other financial expenses comprise interest expenses, lease interest, net capital or exchange losses on payables and transactions in foreign currencies, amortisation of financial liabilities as well as tax surcharge under the Danish Tax Prepayment Scheme etc.

Tax

Tax on the profit/loss for the year comprises the year's current tax and changes in deferred tax. The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to items recognised in other comprehensive income and directly in equity, respectively, is recognised in other comprehensive income or directly in equity. Exchange rate adjustments of deferred tax are recognised as part of the adjustment of deferred tax for the year.

Current tax payable and receivable is recognised in the balance sheet as the expected tax on the taxable income for the year, adjusted for tax paid on account. The current tax charge for the year is calculated based on the tax rates and rules enacted at the balance sheet date.

Penneo is jointly taxed with all Danish group enterprises. The current Danish income tax is allocated among the jointly taxed entities proportionally to their taxable income (full allocation with a refund concerning tax losses).

Deferred tax is calculated using the liability method on all temporary differences between the accounting and taxable values of assets and liabilities.

Deferred tax assets are assessed yearly and only recognised to the extent that it is more likely than not that they can be utilised. Deferred tax assets, including the tax value of tax losses carried forward, are recognised as other non-current assets and measured at the amount at which they are expected to be realised, either by setting off deferred tax liabilities or by setting off tax on future earnings within the same legal entity or a jointly taxed entity.

However, no deferred tax is recognised for amortisation of goodwill disallowed for tax purposes and temporary differences arising at the date of acquisition that do not result from a business combination and that do not have any effect on profit or loss or on taxable income.

Penneo recognises deferred tax assets relating to losses carried forward when Management finds that these can be offset against taxable income in the foreseeable future. An assessment is made taking into consideration the effect of restrictions in utilisation in local tax legislation. Future taxable income is assessed based on budgets as well as Management's expectations regarding growth and operating margin in the coming years.

Balance sheet

Intangible assets

Goodwill

In connection with every acquisition, goodwill and a non-controlling interest (minority) are recognised as follows: Goodwill relating to the entity acquired comprises a positive difference, if any, between the total fair value of the entity acquired and the fair value of the total net assets for accounting purposes. The non-controlling interest is recognised as the share of the total fair value of the entity acquired (full goodwill).

Goodwill is recognised in intangible assets. It is not amortised, but reviewed for impairment once a year and also if events or changes in circumstances indicate that the carrying value may be impaired. If impairment is established, the goodwill is written down to its lower recoverable amount. Sold or liquidated entities are recognised up to the date of disposal. Any gain or loss compared to the carrying amount at the date of disposal is recognised in the income statement to the extent the control of the subsidiary is also transferred.

Intellectual property rights

Intellectual property rights etc comprise development projects completed and in progress with related intellectual property rights, acquired intellectual property rights and pre-payments for intangible assets. Development projects on clearly defined and identifiable products and processes, for which the technical rate of utilisation, adequate resources and a potential future market or development opportunity in the enterprise can be established, and where the intention is to manufacture, market or apply the product or process in question, are recognised as intangible assets.

Other development costs are recognised as costs in the income statement as incurred. Following initial recognition of the development expenditure as an asset, the asset is carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use.

It is amortised over the period of expected future benefit. During the period of development, the asset is tested for impairment annually.

For development projects protected by intellectual property rights, the maximum period of amortisation is the remaining duration of the relevant rights. The amortisation periods used are 3-10 years.

Property, plant and equipment

Property, plant and equipment comprise leasehold improvements and are measured at cost less accumulated depreciation and accumulated impairment. Cost comprises the acquisition price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be put into operation. Leasehold improvements are depreciated on a straight-line basis over the expected useful lives of the finite-lived assets, which are as follows:

Leasehold improvements – 5 years

For leasehold improvements, the depreciation period cannot exceed the contract period. Estimated useful lives and residual values are reassessed annually. Items of property, plant and equipment are written down to the lower of recoverable amount and carrying amount.

Leasehold improvements are tested for impairment if indications of impairment exist. Tangible assets are written down to its recoverable amount, if the carrying amount exceeds the higher of the fair value less costs to sell and the value in use. Depreciation and impairment charges are recognised in the income statement.

Leases

When entering into an agreement, Penneo assesses whether an agreement is a lease agreement or contains a lease element.

The right-of-use asset is measured at cost, which is calculated as the present value of the lease obligation plus any direct costs related to the entering into of the lease and prepaid lease payments. The cost also includes an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset.

The right-of-use asset is depreciated on a straight-line basis over the shorter of the lease term and the useful life of the asset.

Penneo leases properties which includes a service element in the payments to the lessor. This service is deducted from the lease payment when measuring the lease obligation. Where Penneo cannot reliably separate lease and non-lease items, it is considered a single lease payment.

Short leases with a maximum lease term of 12 months and leases where the underlying asset has a low value are not recognised in the statement of financial position.

The lease term is defined as the non-cancellable period of a lease together with periods covered by options to extend the lease if it is reasonably certain that the options will be exercised and periods covered by options to terminate the lease if it is reasonably certain that the options will not be exercised. A number of leases contain extension and termination options in order to guarantee operational flexibility in managing the leases.

The lease obligation, which is recognised under “Lease liabilities”, is measured at the present value of the remaining lease payments, discounted by Penneo incremental loan interest rate, if the implicit interest rate is not stated in the lease agreement or cannot reasonably be determined. The lease obligation is subsequently adjusted if:

- The value of the index or interest rate on which the lease payments are based changes.
- There is a change in the exercise of options to extend or shorten the lease period due to a material event or material change in circumstances which are within the control of the lessee.
- The lease term is changed as a result of exercising an option to extend or shorten the lease term.

Subsequent adjustments of the lease obligation are recognised as a correction to the right-of-use asset.

Trade receivables

Trade receivables are measured at amortised cost less allowance for lifetime expected credit losses.

For trade receivables, Penneo applies a simplified approach in calculating expected credit losses (ECLs). Therefore, Penneo does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date.

Provisions for bad debts are determined on the basis of a general provision based on overdue accounts receivables, adjusted for forward-looking factors specific to the debtors and the economic environment.

However, in certain cases, Penneo may also consider a financial asset to be in default when internal or external information indicates that Penneo is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by Penneo. Trade receivables are written off when all possible options have been exhausted and there is no reasonable expectation of recovery.

The cost of allowances for expected credit losses and write-offs for trade receivables are recognised in the income statement under other external expenses due to exempting from applying the ECL model.

The maximum exposure to credit risk at the reporting date is the carrying value of trade receivables in note 16. Penneo does not hold collateral as security.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Cash and cash equivalents

Cash comprises bank deposits.

Contract liabilities

Contract liabilities include prepayments from customers, which comprise amounts received from customers prior to delivery of the goods agreed or completion of the service agreed. Deferred income comprises income received for recognition in subsequent financial years. Deferred income is measured at cost.

Interest-bearing liabilities

Interest-bearing liabilities are measured at amortised cost, which usually corresponds to nominal value.

Trade payables and other payables

Other payables include bonus and commission accruals, vacation pay obligations, payroll taxes and VAT. Payables are measured at cost.

Provisions

Provisions are recognised when Penneo has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as financial expense.

2. Adoption of new and amended standards

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

- Amendments to "References to the Conceptual Framework in IFRS Standards"
- Amendments to IAS 1 and IAS 8 "Definition of Material"
- Amendments to IFRS 3 "Business Combinations"
- Amendment to IFRS 9, IAS 39 and IFRS 7 "Interest rate benchmark reform"
- Amendment to IFRS 16 "Rent concessions due to impact of COVID-19"

The implementation has not had a significant impact on recognition, measurement or disclosures in the Annual Report 2020 and is not expected to have significant impact on the financial reporting for future periods.

3. Critical accounting judgements and key sources of estimation uncertainty

As part of the preparation of the financial statements, Management makes a number of accounting estimates and assumptions as a basis for recognising and measuring Penneo's assets, liabilities, income and expenses as well as judgements made in applying Penneo's accounting policies. The estimates, judgements and assumptions made are based on experience gained and other factors that are considered prudent by Management in the circumstances, but which are inherently subject to uncertainty and volatility.

The assumptions may be incomplete or inaccurate, and unforeseen events or circumstances may occur for which reason the actual results may differ from the estimates and judgements made. The accounting policies are described in detail in note 1 to the financial statements to which we refer. Management considers the following accounting estimates and judgements to be significant in the preparation of the financial statements.

Development costs

Penneo capitalises costs for software development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project and the expected period of benefits. At 31 December 2020, the carrying amount of capitalised development costs was DKK 20,421k (2019: DKK 14,318k).

Determining the lease term of contracts with renewal and termination options - Penneo as lessee

Penneo determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. Penneo applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in note 7.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value-in-use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that Penneo is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to goodwill and other intangibles with indefinite useful lives recognised by Penneo.

The assumptions may be incomplete or inaccurate, and unforeseen events or circumstances may occur, for which reason the actual results may differ from the estimates and judgements made.

4. Segment information

For management purposes and based on internal reporting information, Penneo is organised in only one operating segment, as the information reported includes operating results at a consolidated level only. The costs related to the main nature of the business are not attributable to any specific revenue stream or customer type and are therefore borne centrally. The results of the single reporting segment are shown in the statement of comprehensive income.

5. Revenue

	2020 DKK	2019 DKK
Subscription	24,336,971	14,013,955
Signature packages	10,239,987	12,531,023
One-time fee	956,747	1,052,305
Total	35,533,705	27,597,283

The following table shows the opening and closing balances of contract liabilities. There was no revenue recognised in the current reporting period that related to performance obligations that were satisfied in a prior year.

	2020 DKK	2019 DKK
Contract balances (liability)		
Cost as at 1 January	5,083,893	5,978,117
Additions	2,861,372	2,817,790
Performance obligations satisfied	(3,433,821)	(3,712,014)
Cost as at 31 December	4,511,444	5,083,893

Management expects that around 65% of the transaction price allocated to the unsatisfied contracts as of the year ended 2020 will be recognised as revenue during the next reporting period. The remaining 35% will be recognised in the upcoming financial years.

6. Staff costs

	2020 DKK	2019 DKK
Salaries	(23,925,753)	(14,450,707)
Share-based payments	(1,367,576)	(271,547)
Other social security costs	(276,839)	(225,803)
Other staff costs	(3,073,972)	(1,862,138)
Total	(28,644,140)	(16,810,195)

Average numbers of FTE based on ATP during the year	54	33
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Board of Directors and Key Management Personnel

Remuneration	(8,361,396)	(5,619,173)
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Penneo does not provide pension contributions.

Employment contracts for members of the Key Management Personnel contain terms and conditions that are common to those of their peers in similar companies including terms of notice and non-competitive clauses.

7. Share-based payments

	2020 DKK	2019 DKK
Cost of share-based payments	(1,367,576)	(271,547)
Total	(1,367,576)	(271,547)

Costs of share-based payments are recognised as staff costs with a corresponding effect in equity. Consideration received for warrants sold is recognised directly in equity.

Employee shares

In 2020, the employees were offered to participate in an Employee Share Scheme. A number of shares equal to the total value of the voluntary amount deducted from pre-tax salary are granted when the Company has published the 2021 Annual Report. If the employee leaves in the vesting period, the employee will still receive the shares corresponding to the amount deducted from the pre-tax salary. Every employee was offered to subscribe for shares within a maximum of 20% of the yearly pre-tax salary before deduction. 56 employees accepted the offer and 48,392 shares were subscribed corresponding 0.19% of the share capital. The share price was DKK 32.77 per share based on the average share price during week 38 in 2020.

The fair value of the shares 31 December 2020 was DKK 313,165. The total value of the benefit element for the subscription rights was DKK 86,662, which has been recognized as staff costs.

Warrant programme 2020

The company has over the years introduced Warrant programmes aimed to key employees. Warrants are vesting over time to ensure the retention of such key employees.

Under the warrant program of 28 May 2020, the warrants are granted full upon signing of the agreement as the agreement is a modification to an existing program where all warrants were already vested. The warrants can only be exercised if all previously assigned warrants are expired and not exercised. The program consists of 4,502,601 warrants.

The warrants can be exercised after the announcement of the interim financial reporting ending 30 June 2021 at the earliest and no later than 14 days after announcement of the interim report ending 30 September 2023. The 4,502,601 warrants listed above cannot be exercised before after the publication of the Company's half-year financial report regarding the first half-year of 2021.

Further, in accordance with the provisions of the warrant programme the Board of Directors will require the warrant holders to sign lock-up agreements on terms equivalent to the terms of the Lock-Up Obligation applying to the Existing Shareholders. All warrants expire in the second quarter of 2023 – 14 days after the publication of the first quarterly financial statement of 2023.

At 13 October 2020, 37,500 warrants were granted in connection with the acquisition of CLA Reply. The warrants are vested upon the fulfillment of 5 tranches with different performance conditions. The warrants can be exercised after the announcement of the financial reporting ending 30 June 2021 at the earliest and no later than 14 days after announcement of the interim report ending 30 September 2023.

Specification of outstanding warrants:

Number of warrants	Weighted average exercise price DKK	Board of Directors	Key management personnel	Employees, former employees and advisors	Total
Outstanding at 1 January 2019	342.44	0	10,790	12,563	23,353
Granted 2019	755.06	1,941	840	14,533	17,314
Exercised 2019	-	-	-	(10,104)	(10,104)
Cancelled 2019	-	-	-	-	-
Outstanding at 31 December 2019	672.88	1,941	11,630	16,992	30,563
Granted 2020	4.86	561,533	3,603,500	4,837,877	9,002,910
Exercised 2020	-	-	-	(399)	(399)
Cancelled 2020	-	(280,307)	(1,816,406)	(2,396,260)	(4,492,973)
Outstanding at 31 December 2020	-	283,167	1,798,724	2,458,210	4,540,101

Outstanding warrants have the following characteristics:

Warrants outstanding	Weighted average exercise price DKK	Vesting period	Exercise period	2020
Warrants granted 28 May 2020	4.86	Fully vested	From August 2021 to November 2023	4,502,601
Warrants granted 13 October 2020	32,93	From October 2020 to June 2022	From August 2021 to November 2023	37,500
Outstanding at 31 December				4,540,101

	2020	2019
Average remaining life of outstanding warrants at 31 December (years)	2.4	5.2
Exercise price for outstanding warrants at 31 December (DKK)	0.34 to 32.93	50.00 to 1,151.00

The fair value of the warrants issued is measured at calculated market price at the grant date based on the Black & Scholes option pricing model. The calculation is based on the following assumptions at the grant date:

	Warrant programme 2020
Average share price (DKK)	10.99
Expected volatility rate (% p.a.)	24.92
InterRisk-free interest rate (% p.a.)	0
Expected warrant life (no. years)	3
Exercise price (DKK)	4.86
Fair value all warrants, after dilution (DKK'000)	28,741

Expected volatility rate is applied based on the annualised volatility on relevant peer groups derived from the standard deviation of daily observations over 12 months ending 2020.

8. Depreciation, amortisation and impairment

	2020 DKK	2019 DKK
Amortisation of intangible assets	(2,827,008)	(1,912,351)
Impairment of financial assets	-	(95,000)
Depreciation of property, plant and equipment	(118,831)	(28,668)
Depreciation of right-of-use assets	(2,256,381)	(518,512)
Total	(5,202,220)	(2,554,531)

9. Financial income

	2020 DKK	2019 DKK
Other financial income		359
Exchange rate adjustments	93,132	43,055
Total	93,132	43,414

10. Financial expenses

	2020 DKK	2019 DKK
Interest expenses	(672,565)	(19,627)
Exchange rate adjustments	(163,296)	(56,950)
Other financial expenses	(303,166)	(484,522)
Total	(1,139,027)	(561,099)

11. Tax for the year

	2020 DKK	2019 DKK
Current tax for the year income	1,083,137	727,491
Changes in deferred tax	3,405,000	(745,830)
Adjustment concerning previous years	-	39,420
Recognised as receivable tax credit	4,488,137	21,081

Income tax benefits for both the years 2020 and 2019 relate to tax credit for research and development expenses at the applicable tax rate under the Danish Corporate Income Tax Act.

	2020 DKK	2019 DKK
Tax calculated as 22% of profit/loss before tax	(3,669,020)	(588,678)
Non-capitalised tax assets	-	-
Non-deductible expenses	516,504	13,286
Effective tax	(3,152,516)	(575,392)

Effective tax rate for the year (%)

19%	22%
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Deferred tax is recognized in the statement of financial position as follows:

	2020 DKK	2019 DKK
Deferred tax (asset)	-	-
Deferred tax (liability)	-	3,405,000
Total	-	3,405,000

Deferred tax concerns

	2020 DKK	2019 DKK
Intangible assets	4,456,000	3,742,000
Other fixtures and fittings, tools and equipment	(7,000)	(9,000)
Fixed asset investments	3,365,000	2,367,000
Receivables	-	-
Provisions	-	-
Liabilities other than provisions	(3,424,000)	(2,357,000)
Tax loss carried forward	(4,390,000)	(338,000)
Total	-	3,405,000

Due to uncertainty of utilisation of the tax loss carry-forward, Penneo has not recognised any deferred tax assets.

12. Intangible assets

	Acquired intellectual property rights DKK	Completed development projects	Development projects in progress	Goodwill	Total
2020					
Cost as at 1 January	-	12,015,493	7,159,403	1,100,000	20,274,896
Additions from business combinations	6,600,000	-	-	8,400,000	15,000,000
Additions	-	6,168,178	2,762,298	-	8,930,476
Cost as at 31 December	6,600,000	18,183,671	9,921,701	9,500,000	44,205,372
Amortisation and impairment as at 1 January	-	(4,857,077)	-	(1,100,000)	(5,957,077)
Amortisations during the year	(165,000)	(2,827,008)	-	-	(2,992,008)
Amortisations and impairment as at 31 December	(165,000)	(7,684,085)	-	(1,100,000)	(8,949,085)
Carrying amount as at 31 December	6,435,000	10,499,586	9,921,701	8,400,000	35,256,287
2019					
Cost as at 1 January	-	12,015,493	3,735,875	1,100,000	16,851,368
Additions	-	-	3,423,528	-	3,423,528
Cost as at 31 December	-	12,015,493	7,159,403	1,100,000	20,274,896
Amortisation and impairment as at 1 January	-	(2,944,726)	-	(1,100,000)	(4,044,726)
Amortisations during the year	-	(1,912,351)	-	-	(1,912,351)
Amortisations and impairment as at 31 December	-	(4,857,077)	-	(1,100,000)	(5,957,077)
Carrying amount as at 31 December	-	7,158,416	7,159,403	-	14,317,819

Development projects in progress include the development of a new software platform. The development project essentially consists of costs in the form of direct costs which are registered through Penneo's internal project module.

Management is of the opinion that it is technically possible to complete the development projects during execution.

Completed development projects comprise software development costs related to development of the existing software platform. The software is under continuous development for the use of customers and is sold as a licence to use the software for a given period. The user has access to upgrades and new functionalities during the contract period.

Development costs for the year cover both development of the front-end and the back-end part of the software solution. Both parts to increase the user experience and functionalities within the software in order to increase Penneo's revenue by maintaining existing clients and acquiring new clients.

It is Management's assessment that the expected useful lives of the finite-lived assets, as well as the expected future revenue streams from the assets are sufficient to cover the value of recognised developed software at the reporting date.

In 2020, Penneo expensed DKK 3,217k for development projects, primarily planning, administrative and other general overhead expenditures not meeting the recognition criteria applicable to internally generated intangible assets.

13. Property, plant and equipment

	Leasehold improvements DKK
2020	
Cost as at 1 January	397,146
Additions	612,085
Cost as at 31 December	1,009,231
Depreciation as at 1 January	(154,689)
Depreciation during the year	(119,803)
Depreciation as at 31 December	(274,492)
Carrying amount as at 31 December	734,739
	Leasehold improvements DKK
2019	
Cost as at 1 January	154,692
Additions	242,454
Cost as at 31 December	397,146
Depreciation as at 1 January	(126,021)
Depreciation during the year	(28,668)
Depreciation as at 31 December	(154,689)
Carrying amount as at 31 December	242,457

14. Leases

	Properties DKK
2020	
Cost as at 1 January	11,357,158
Additions	235,562
Disposals	(347,180)
Adjustments and revaluations	6,551,532
Cost as at 31 December	<u>17,797,072</u>
Depreciation as at 1 January	(518,512)
Reversals regarding disposals	347,180
Depreciation during the year	(2,256,381)
Depreciation as at 31 December	<u>(2,427,713)</u>
Carrying amount as at 31 December	<u>15,369,359</u>
	Properties DKK
2019	
Cost as at 1 January	634,283
Additions	10,722,875
Cost as at 31 December	<u>11,357,158</u>
Depreciation as at 1 January	-
Depreciation during the year	(518,512)
Depreciation as at 31 December	<u>(518,512)</u>
Carrying amount as at 31 December	<u>10,838,646</u>

Carrying amounts of lease liabilities and movements during the period:

	2020 DKK	2019 DKK
At 1 January	10,711,721	634,283
Additions	235,562	10,405,079
Accrual of interest	292,816	33,702
Payments	(2,122,058)	(361,343)
Adjustments	6,446,022	-
At 31 December	15,564,063	10,711,721
Non-current	13,560,555	8,886,782
Current	2,003,508	1,824,939

The following amounts have been recognized in the income statement:

	2020 DKK	2019 DKK
Depreciation expense of right-of-use assets	2,256,381	518,513
Interest expense on lease liabilities	292,816	33,702
Total amount recognised in the income statement	2,549,197	552,215

Penneo had total outflow for leases of DKK 2,122k (2019: DKK 361k).

Penneo leases offices and lease terms are negotiated on an individual basis and contain different terms and conditions.

15. Deposits

	2020 DKK	2019 DKK
Cost as at 1 January	1,112,672	177,830
Additions	146,028	1,029,842
Impairment losses for the year	-	(95,000)
Cost as at 31 December	1,258,700	1,112,672

16. Trade receivables

	31.12.2020 DKK	01.01.2020 DKK	01.01.2019 DKK
Trade receivables	9,084,581	3,534,969	4,208,350
Write-downs	(423,740)	(74,075)	(32,909)
Total	8,660,841	3,460,894	4,175,441

The carrying amounts are equivalent to the fair value of the assets.

Expected credit loss

The following table details the risk profile of trade receivables based on Penneo's expected loss on trade receivables.

DKK	Not past due	Overdue by 0-45 days	Overdue by 49-90 days	Overdue by >90 days	Write downs	Carrying amount of receivables
31 December 2020						
Trade receivables	7,404,976	807,554	448,311	423,740	(423,740)	8,660,841
31 December 2019						
Trade receivables	2,030,299	1,215,395	152,700	136,575	(74,075)	3,460,894
01 January 2019						
Trade receivables	2,766,231	1,408,778	19,403	13,938	(32,909)	4,175,441

17. Working capital changes

	2020 DKK	2019 DKK
Change in receivables and prepayments	(5,506,607)	1,229,770
Change in trade payables and other payables etc.	6,460,712	(1,958,856)
	954,105	(729,086)

18. Share capital and earnings per share

As at 31 December 2020, the share capital consisted of 25,130,728 (2019: 6.797.750) shares with a nominal value of DKK 0.02 each. The shares are not divided into classes and carry no right to fixed income.

Issued and fully paid shares:

As at 1 January 2019 , 5,428,350 shares of DKK 0.02 each	108,567
Capital increase	27,428
As at 31 December 2019	135,955
Capital increase	366,620
Share capital as at 31 December 2020	502,615

	2020 DKK	2019 DKK
Earnings per share		
The calculation of earnings per share is based on the following:		
Profit/(loss) for the year	(12,802,649)	(2,655,730)
Average number of ordinary shares for calculation of earnings per share:		
Average diluted effect of outstanding share options	4,525,153	1,707,949
Average number of shares for calculation of diluted earnings per share:		
Earnings per share, (EPS)	(0.65)	(0.47)
Earnings per share, diluted (DEPS)	(0.53)	(0.36)

19. Other capital reserve

Other capital reserve is used to recognise the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their remuneration. Refer to Note 7 for further details of these plans. In 2020 included is the earn-out clause from the business combination entered in 2020, please refer to Note 25.

20. Interest-bearing liabilities

	31.12.2020 DKK	01.01.2020 DKK	01.01.2019 DKK
Non-current borrowings			
Debt to credit institutions	5,070,430	5,070,430	1,232,776
Total	5,070,430	5,070,430	1,232,776
Current borrowings			
Debt to credit institutions	-	-	46,718
Total	-	-	46,718

The carrying amount is by Management assessed as equivalent to the fair value of the liabilities.

21. Provisions

	Decommissioning 2020 DKK
At 1 January	317,797
Additions	105,509
Utilised	-
Unused amounts reversed	-
Unwinding of discount and changes in the discount rate	8,961
At 31 December	432,267

	Decommissioning 2019 DKK
At 1 January	-
Additions	317,797
Utilised	-
Unused amounts reversed	-
Unwinding of discount and changes in the discount rate	-
At 31 December	<u>317,797</u>

A provision has been recognised for decommissioning costs associated with an office lease. Penneo is committed to restore the site at the end of the lease term.

22. Financial Risks

Capital Management

Penneo manages its capital to ensure that it will be able to continue as a going concern while maximising the growth in ARR through the optimisation of the debt and equity balances. The capital structure of Penneo consists of net debt and equity. Management reviews the capital structure continually to consider if the current capital structure is in accordance with the company and shareholders' interests. In June 2020, the company became listed on Nasdaq First North in Denmark. The main purpose of the listing was to raise funds for the internationalization of the business. In connection with the listing, Penneo received proceeds of DKK 45,2 million, net of costs.

Financial risk management

Due to the nature of its operations, investments, and financing, Penneo is exposed to a number of financial risks. It is company policy to operate with a low risk profile, so that currency risk, interest rate risk and credit risk only occur in commercial relations.

The scope and nature of the financial instruments appear from the income statement and statement of financial position in accordance with the accounting policies applied. Provided below is information about factors that may influence amounts, time of payment, or reliability of future payments, where such information is not provided directly in the financial statements. This note addresses only financial risks directly related to Penneo's financial instruments.

Credit risk

Credit risk is the risk that a counterparty will not meet its obligations towards Penneo, leading to a financial loss. Penneo is exposed to credit risk primarily related to its trade and other receivables. Penneo assesses default when the accounts receivables are due more than 90 days and the outstanding amount is written off, when there is a court order of bankruptcy from the counterparty.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates.

Penneo issues invoices in local currency, which is why the incoming cash flow reflects different currencies. Historically, DKK has been the predominant invoiced currency, hence Penneo only has a DKK bank account. Penneo has in all material aspects only transactions in DKK and EUR. Going forward, Management expects higher frequency of foreign currencies in the incoming and outgoing cash flow. Consequently, management has initiated the process to establish new bank accounts for these currencies, to reduce costs and lower risk. In order to minimise the risk on foreign currency fluctuation on new contracts, Penneo's price list is fixed to EUR.

Liquidity risk

Penneo ensures sufficient liquidity resources by liquidity management. In order to limit Penneo's counterparty risk, deposits are only made in well-reputed banks. At 31 December 2020, Penneo's cash and cash equivalents amounted to DKK 31,843k (2019: DKK 8,217k). The cash reserve and expected cash flow for 2021 are considered to be adequate to meet the obligations of Penneo as they fall due.

The table below summarises the maturity profile of Penneo's financial liabilities based on contractual undiscounted payments:

	On demand DKK	Less than 6 months DKK	6 to 12 months DKK	1 to 5 years DKK	> 5 years DKK	Total DKK
Year ended 31 December 2020						
Interest-bearing loans and borrowings	-	-	482,814	5,312,114	-	5,794,928
Lease liabilities	-	-	2,371,295	10,858,333	3,608,274	16,837,902
Other financial liabilities	-	-	-	-	-	-
Trade and other payables	66,989	3,020,897	-	2,220,842	-	5,241,739
	66,989	3,020,897	2,854,109	18,391,289	3,608,274	27,874,569
Year ended 31 December 2019						
Interest-bearing loans and borrowings	-	-	-	5,794,928	-	5,794,928
Lease liabilities	-	-	2,069,558	8,300,136	1,084,625	11,454,319
Other financial liabilities	-	-	-	-	-	-
Trade and other payables	39,000	2,620,716	-	689,462	-	3,310,178
	39,000	2,620,716	2,069,558	14,784,526	1,084,625	20,559,425

Interest rate risk

Interest rate risk arises in relation to interest-bearing assets and liabilities. Penneo's interest-bearing debt to Vækstfonden of DKK 5,070k as per 31 December 2020 is subject to a variable rate of interest based on a 3-month CIBOR plus a premium. If market interest rates increased by one percentage point, the interest rate sensitivity as calculated based on the loan balance to credit institutions as per end of 2020 would lead to a yearly increase in interest expenses of DKK 0,05 million. A corresponding decrease in market interest rates would have the opposite impact.

Financial instruments:

	2020 DKK	2019 DKK
Financial assets measured at amortised cost		
Deposits	1,258,700	1,112,672
Other receivables	1,016	41,469
Current Cash	31,842,851	8,217,139
Total	33,102,567	9,371,280
Financial liabilities measured at amortised cost		
Interest bearing loan	4,695,526	5,070,430
Trade payables	2,665,906	2,370,974
Other payables	10,068,929	3,496,671
Total	17,430,361	10,938,075

Classification of financial assets measured at amortised cost

Since Penneo's financial instruments measured at amortised cost are either short-term and/or exposed to floating interest rates, Management has assessed that the carrying amount is a reasonable approximation of fair value.

23. Liabilities arising from financing activities

	Other borrowings 2020 DKK	Lease liabilities 2020 DKK	Total 2020 DKK
Liabilities at 1 January	5,070,430	10,711,721	15,782,151
Loans raised	-	235,562	235,562
Repayments	-	(2,122,058)	(2,122,058)
Adjustments	-	6,446,022	6,446,022
Other	-	292,816	292,816
Liabilities at 31 December	5,070,430	15,564,063	20,634,493

Penneo had non-cash additions to right-of-use assets and lease liabilities of DKK 235k in 2020 (DKK 10,405k in 2019).

	Other borrowings 2019 DKK	Lease liabilities 2019 DKK	Total 2019 DKK
Liabilities at 1 January	5,067,059	634,283	5,701,342
Loans raised	-	10,405,079	10,405,079
Adjustments	-	(361,343)	(361,343)
Other	3,371	33,702	37,073
Liabilities at 31 December	5,070,430	10,711,721	15,782,151

24. Guarantees, contingent liabilities and collateral

The following assets are provided as collateral in favour of credit institutions:

	31.12.2020 DKK	31.12.2019 DKK	01.01.2019 DKK
Property, plant and equipment	16,123,415	11,056,618	152,000
Total	16,123,415	11,056,618	152,000

Contingent liabilities

The company has engaged in a new office space rental agreement in the center of Copenhagen. The rental agreement holds a fixation period of 6 years from the end of 2020, at a considerable price increase compared to similar and previous liabilities.

The company has entered into an agreement with Vækstfonden regarding exit obligation and performance obligation. The exit obligation is triggered by an exit defined by loan agreement. The exit obligation is maximized by DKK 800k. The performance obligation is triggered by EBITDA of DKK 15 million. The performance obligation is maximized by DKK 400k per year.

25. Business combinations

Acquisition of business activities from CLA Reply

On 6 October 2020, Penneo acquired a part of CLA Reply business division concerning Anti Money Laundering (AML) and Know Your Customer (KYC) activities, in exchange for cash consideration and earn out in terms of Penneo shares.

Consideration transferred

The acquisition has been satisfied by cash considerations of DKK 3,750k and DKK 8,250k worth of Penneo shares and earn-out of 91.302 Penneo shares totalling DKK 3,000k. The earn-out clause is triggered by:

- a) Retention of critical business knowledge and know-how from key stakeholders
- b) Successful technical integration of Penneo's and CLA Reply's platforms
- c) Proof of internationalizing CLA Reply's platform

Strategic rationale and synergies

The goodwill of DKK 8,400k arising from the acquisition is attributable to the acceleration of Penneo's future growth as CLA is a perfect strategic fit that contributes to Penneo's product offerings by augmenting KYC and AML compliance - moving towards a full service end-to-end platform for accountants and auditors in Europe. The benefit is twofold; a pull effect in the European market and a bigger addressable market.

None of the goodwill acquired is expected to be deductible for income tax purposes.

Transaction costs

Acquisition-related costs of DKK 546k have been charged to other external expenses in the income statement for the year.

Earnings impact

Since the closing on 6 October 2020, CLA Reply has contributed with revenue of DKK 229k. As the acquisition is part of a business and no separate entity was acquired, it is not possible to substantiate the acquired profit/loss since acquisition date nor revenue or profit/loss since 1 January 2020.

The fair values of the identifiable assets and liabilities of CLA Reply as at the date of the acquisition were:

	Fair value recognised on acquisition DKK
2020	
Assets	
Intangible rights	6,600,000
Net assets acquired	6,600,000
Goodwill	8,400,000
Purchase price (Enterprise value)	15,000,000
<i>Satisfied by</i>	
Cash	3,750,000
Shares in Penneo	8,250,000
Earn-out clause	3,000,000
Total considerations transferred	15,000,000
<i>Net cash outflow arising on acquisition</i>	
Cash consideration paid	3,750,000
Transaction costs of acquisition	545,967
Total cash outflow	4,295,967

Total amount of earn out is presented under equity, as the contingent consideration is fixed to 91.302 Penneo shares total, due to the fact the amount of shares are fixed.

26. Related parties

Shareholders	Registered office	Basis of influence
Andersen Advisory Group A/S	Denmark	13%
Biostrat Biotech Consulting ApS	Denmark	12%
Flora IT ApS	Denmark	9%
Clausen Online ApS	Denmark	8%
André Clement Holding ApS	Denmark	7%
Neua Holding ApS	Denmark	7%
Eskholm Holding ApS	Denmark	7%

Other related parties

Other related parties of Penneo A/S with significant influence comprise the Board of Directors and Executive Board and their related parties. There were no other related parties identified.

Penneo A/S has had a transaction with related parties in the form of a DKK 5,000k loan, which was fully repaid in 2020.

There has been no related party transactions other than the transaction described above, and normal remuneration of the Board of Directors and Executive Board are disclosed as part of note 6.

All transactions with related parties have been carried out at arm's length principle.

27. Events after the reporting period

From the balance sheet date and until today, no further matters, which would influence the evaluation of the annual report has occurred.

Primary activities

Penneo A/S (Penneo) is a Software-as-a-Service (SaaS) company, originally focused on delivering the digital pen (Penneo = new pen) back in 2014. Today, Penneo has evolved into an eco-system of automation solutions that digitizes company workflows related to onboarding of customers (KYC), and signing and management of documents in a secure and easy way. The Company offers a RegTech solution that helps companies comply with regulations in an efficient and inexpensive way. Penneo has a strong position in the Nordics and in Denmark, where more than 620.000 people used Penneo's workflow in 2020.

For more information about Penneo visit: <https://penneo.com/investors/>

Offices:

HQ:
Copenhagen, Denmark

Market Presence

Denmark
Sweden
Norway
Belgium
Finland

Fun facts

- More than 10% of the Danish population used Penneo in 2020
- A diverse workforce of 22 different nationalities working in Penneo

Financial Calendar

ANNUAL REPORT

25 March, 2021

GENERAL MEETING

28 April, 2021

QUARTERLY REPORT

26 May, 2021

HALF YEAR REPORT

27 August, 2021

QUARTERLY REPORT

25 November, 2021

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Nicolaj Højer Nielsen

Adm. direktør

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