

# Group Management Report

for the Consolidated Financial Statements as at 31 December 2020

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## Economic environment

The areas in which the Frequentis Group operates (information and communication systems for civil and military air traffic control, emergency services, rail, and water transport) have relatively low cyclical exposure compared with other sectors of industry. Frequentis' business performance would be adversely affected by a significant global decline in one of these five areas. Frequentis cannot completely avoid general economic developments. However, it supplies safety-critical infrastructure, which cannot be dispensed with and has to be upheld and maintained even in periods of crisis.

The International Monetary Fund (IMF) published its World Economic Outlook Update in January 2021.<sup>1</sup> In light of the widespread COVID-19 pandemic, the IMF estimates that global economic output shrank by 3.5% in 2020. For 2021, it projects growth of 5.5%. Growth momentum is expected to vary significantly between countries and will be dependent on the following factors:

- Access to medical interventions
- Effectiveness of policy support
- The country's exposure to cross-border spillovers
- Structural characteristics at the start of the crisis

The report assumes that the US economy contracted by 3.4% in 2020 and that it will grow by 4.5% in 2021. For the euro-zone economies, the IMF anticipates a drop of 7.2% in 2020, followed by growth of 4.2% in 2021. Looking at the largest euro-zone economies, the report anticipates the lowest reduction in economic output in Germany, with a drop of 5.4%, and declines of more than 9% in France, Italy, and Spain. The growth rates predicted for 2021 are 3.0% for Italy, 3.5% for Germany, 5.5% for France, and 5.9% for Spain. The forecast for the UK is a drop of 10.0% in 2020 and growth of 4.5% in 2021.

Compared with the global development, a decline of just 1.1% is projected for the emerging markets and developing countries in Asia in 2020, and growth of 8.3% is anticipated for 2021. The IMF assumes a contraction of 7.4% in Latin America in 2020 (2021: growth of 4.1%). The projection for the Middle East and Central Asia for 2020 is -3.2% (2021: 3.0%).

<sup>1</sup> <https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update>

# Business performance

In 2020, Frequentis' operating business was mainly influenced by the COVID-19 pandemic. Thanks to its stable business model as a supplier of communication and information systems for control centres in the safety-critical area, the measures introduced, and successful project acceptance processes, Frequentis was able to minimise the impact.

## Significant events in 2020

### COVID-19 pandemic

The COVID-19 pandemic triggered a global economic crisis. Frequentis cannot completely avoid general economic developments. However, it supplies safety-critical infrastructure, which has to be upheld and maintained even in periods of crisis.

With a few exceptions, it was possible to continue business unchanged despite the restrictions. Frequentis staff performed many activities on a mobile basis in the past, so switching to fully remote working (e.g. from home) was possible with little difficulty (with the exception of manual work performed on-site at some locations or on customers' premises). Since the ability to travel outside the countries in which the Frequentis Group has locations was very restricted, many customer acceptance procedures were performed using video conferencing, with additional technical and organisational support.

#### Impact on revenues and expenses

Where the project team was unable to complete work due to lockdowns or travel restrictions, postponement of the acceptance dates was agreed with some customers. In addition, longer payment terms were negotiated in some cases.

Despite the travel restrictions, it was possible to conduct a fair proportion of project acceptances remotely. Consequently, the travel expenses recognised in the financial statements were lower. Certain activities such as the installation and start-up of new systems were, and still are, only possible in those countries where Frequentis has its own locations or skilled technical partners or where Frequentis staff can and may travel or the work can be performed by the customer with remote support. This means that some systems could not yet be (fully) installed and accepted by customers, resulting in a temporary shift in revenues.

#### Measures taken

To evaluate and mitigate any impact on Frequentis, a special crisis team was set up under the chairmanship of the CEO. This team defined various measures to maintain operations without interruption wherever possible. Working from home and other measures to drive forward projects for customers and maintain supply chains were effective.

### Acquisition of ATRiCS

In March 2020, Frequentis acquired a 51% stake in ATRiCS Advanced Traffic Solutions GmbH, which is based in Freiburg, Germany. ATRiCS was established in 2002 and is an owner-run company. It offers airport-specific software solutions for runway taxi operations management as well as consultancy services for airports and air navigation service providers – to improve safety and increase airport capacity. This acquisition enables the Frequentis Group to significantly extend the technology it offers. ATRiCS has been fully consolidated by the Frequentis Group since the start of April 2020.

### Insolvency of Commerzialbank Mattersburg

Pursuant to the notification of the Austrian Financial Market Authority (FMA) dated 14 July 2020, Commerzialbank Mattersburg im Burgenland AG (Commerzialbank Mattersburg) was prohibited by decree, with immediate effect, from continuing its business operations and an auditor was appointed as government commissioner. Consequently, the bank is also prohibited from paying out any deposits.

At that time, Frequentis had deposits in the amount of EUR 30.9 million with Commerzialbank Mattersburg and declared the entire amount due against Commerzialbank Mattersburg on 16 July 2020. This declaration was also addressed to the government commissioner appointed by the FMA. As expected, Frequentis received a negative response thereto on 17 July 2020. On 24 July 2020, Frequentis received EUR 100,000 from Einlagensicherung AUSTRIA Ges.m.b.H., the protection entity for Austrian credit institutions, pursuant to the Austrian Deposit Protection and Investor Compensation Act.

On 27 July 2020, the Austrian Financial Market Authority filed an application with Eisenstadt regional court to open insolvency proceedings in respect of the assets of Commerzialbank Mattersburg. The opening of the insolvency proceedings in respect of the assets of Commerzialbank Mattersburg was announced on 28 July 2020. In an interim report dated 24 July, 2020, the government commissioner appointed by the Austrian Financial Market Authority stated that, according to an interim status report, Commerzialbank Mattersburg was mathematically over-indebted at the time when the Austrian Financial Market Authority prohibited its business operations. The entire amount of Frequentis' claim was filed in the insolvency proceedings on 29 July 2020.

Frequentis has engaged a team of lawyers, which is evaluating all legal options to protect the interests of Frequentis in the best possible manner. This evaluation includes the possible assertion and prosecution of potential claims against involved legal entities, organisations, and persons. Lawsuits have already been filed in this connection. From the present viewpoint, these lawsuits and the pursuit of further potential claims may take a significant period of time.

As a result of the insolvency, an impairment loss in the amount of EUR 30.9 million was recognised under impairment losses on financial assets for Frequentis' bank balances due on demand and its time deposits at Commerzialbank Mattersburg.

### Order intake

Order intake in the Frequentis Group was EUR 314.6 million in 2020, a decline of 5.7% compared with 2019, when order intake was EUR 333.7 million. Unlike previous years, order intake was stronger in the first half of 2020 than in the second half of the year. In 2020, the ratio of orders placed in the first six months versus the second six months was 55%:45% (2019: 40%:60%).

The distribution of order intake between the two segments in 2020 was as follows: Air Traffic Management 64% (2019: 67%), Public Safety & Transport 36% (2019: 33%).

In response to the restrictions resulting from the COVID-19 pandemic, Frequentis introduced a range of measures such as digital marketing via webinars, online demonstration rooms, and the Sales Goes Digital initiative.

## Highlights of order intake in the Air Traffic Management segment

The Air Traffic Management segment was able to gain further significant orders. These include supplying a voice communications solution for the Spanish air navigation service provider ENAIRE, which covers one of the widest areas in Europe, and an order from the Danish air navigation service provider NAVIAIR for a nationwide digital (remote) tower solution.

In Africa, Frequentis received an order from ASECNA, the air traffic control organisation for 17 countries in Africa, to deliver and install aeronautical message handling systems (AMHS, e.g. for flight plans and weather data) for eight countries.

In the new drone management market, a reference order was secured in Norway. Frequentis' cloud-based solution enables the Norwegian air navigation service provider AVINOR to integrate drones safely and efficiently into Norwegian airspace.

Installed base business in the Defence business domain is developing positively and follow-on orders were acquired, especially for programmes in Europe (for example, from customers in Germany, Switzerland, Poland, and Austria), as well as in Australia.

## Highlights of order intake in the Public Safety & Transport segment

Within the Public Safety & Transport segment, the Public Safety business domain received an order to deliver a future-oriented communication system for the police and fire service control centres in Hamburg, extending its market leadership with the emergency services in Germany.

In the Public Transport business domain, orders were mainly secured from the installed base in Europe. As well as orders for releases and upgrades, these include expansion and maintenance contracts.

In the Maritime business domain, an order placed in 2020 for renewal of the Swedish coastal radio system testifies to Frequentis' strong presence in northern Europe.

## Orders on hand

Orders on hand amounted to EUR 427.6 million as at 31 December 2020, an increase of 9.2% or EUR 36.1 million compared with year-end 2019 (EUR 391.5 million). The Air Traffic Management segment accounted for around 58% of total orders on hand (December 2019: 60%) and the Public Safety & Transport segment for 42% (December 2019: 40%).

## Revenues and operating performance

Despite the pandemic, revenues of EUR 299.4 million were generated in 2020 (2019: EUR 303.6 million). That was a decline of 1.4%. In the Air Traffic Management segment, revenues dropped to EUR 203.1 million (-3.8%), whereas revenues in the Public Safety & Transport segment increased by 4.1% to EUR 96.3 million.

In 2020, the Air Traffic Management segment accounted for 68% of Group revenues (2019: 70%) and the Public Safety & Transport segment accounted for 32% (2019: 30%). Looking at the regional revenue split in 2020, Europe accounted for 66% (2019: 61%), the Americas for 16% (2019: 19%), Asia for 11% (2019: 13%), Australia/Pacific for 5% (2019: 6%), and Africa for around 1% (2019: 1%). Approximately 1% (2019: <1%) of revenues were not allocated to a region.

The other operating income increased to EUR 8.6 million (2019: EUR 6.2 million). The biggest single items here are grants and subsidies for research and development costs and income from research subsidies. Operating performance declined by 0.8% to EUR 307.9 million in 2020.

## Earnings

The cost of materials and purchased services decreased by 8.1% to EUR 75.0 million (2019: EUR 81.6 million) due to the lower material intensity of the projects undertaken. Personnel expenses increased by 2.0% to EUR 157.9 million (2019: EUR 154.8 million), principally due to the increase in the number of employees as a result of the new companies in the consolidated group. Taking the cost of materials and purchased services and personnel expenses together, there was a year-on-year decline of 1.5% in 2020. Frequentis therefore managed to minimise the impact of the pandemic through appropriate management of projects (e.g. through virtual project acceptances) and generated roughly the same level of revenues with the same absolute expenses.

The other operating expenses dropped by 24.4% to EUR 33.0 million (2019: EUR 43.7 million). Travel expenses, advertising costs, and a range of other items declined. Legal and consulting expenses increased, mainly due to expenses for legal steps relating to the insolvency of Commerzialbank Mattersburg, and M&A activities. For a detailed list of all items included in other operating expenses see [➤](#) consolidated financial statements, note 9.

The reduction in travel expenses is related to the travel restrictions due to the COVID-19 pandemic, the resulting widespread switch to project acceptance via video conferencing, and digital marketing and sales activities. The travel restrictions also led to a reduction in advertising expenses due to the cancellation of trade shows. It should be noted that savings on this scale will not be repeated in the future because complete digitisation of on-site acceptance procedures, training, trade shows, and sales activities is not possible. Much will depend on the extent to which projects and sales activities can be carried out virtually in the future or whether, when the pandemic is contained, customers, suppliers, and business partners will move back towards presence-based activities.

EBITDA (earnings before interest, taxes, depreciation, amortisation, and impairment losses) improved by EUR 11.7 million to EUR 41.9 million in 2020 (2019: EUR 30.2 million). The EBITDA margin (relative to revenues) was 14.0%, compared with 9.9% in 2019.

Depreciation and amortisation increased by EUR 1.1 million to EUR 14.0 million. The impairment loss on goodwill in respect of Systems Interface Ltd., UK, was EUR 1.1 million, see [➤](#) consolidated financial statements, note 18.

Despite the COVID-19 pandemic, as a result of all the above changes, EBIT increased by EUR 9.6 million to EUR 26.8 million in 2020 (2019: EUR 17.2 million). The EBIT margin (relative to revenues) was 9.0%, compared with 5.7% in 2019.

Financial income dropped to less than EUR 0.1 million (2019: EUR 0.4 million). Unlike previous years, in 2020 this item no longer included interest income from Commerzialbank Mattersburg. Financial expenses declined to EUR 0.6 million (2019: EUR 0.8 million). The impairment loss on financial assets in the amount of EUR 30.9 million is almost entirely due to the impairment loss on bank deposits recognised after the insolvency of Commerzialbank Mattersburg.

Income from investments accounted for at equity increased to over EUR 0.2 million in 2020 (2019: over EUR 0.1 million).

The profit/loss before tax was influenced, on the one hand, by the positive development of EBIT and, on the other, by the impairment loss due to the insolvency of Commerzialbank Mattersburg, resulting in a loss of EUR 4.4 million in 2020, compared with a profit of EUR 17.0 million in 2019.

Income tax income was EUR 1.0 million in 2020, whereas income tax expense of EUR 4.5 million was reported in 2019. The principal reason for the income tax income in 2020 was the recognition of deferred tax assets in connection with the impairment loss on the deposits at Commerzialbank Mattersburg.

In 2020, the Group reported a loss for the period of EUR 3.4 million, compared with a profit of EUR 12.5 million in 2019. The impact of the impairment loss on the deposits at Commerzialbank Mattersburg on the loss for the period was EUR 23.2 million (including the tax effect). Without this impairment loss, the Group would have reported a profit for the period of EUR 19.8 million.

Basic and diluted earnings per share were EUR -0.30 in 2020 (EUR 1.50 without the impairment loss following the insolvency of Commerzialbank Mattersburg), compared with EUR 0.93 in 2019.

## Employees

The headcount increased by 3.1% to an average of 1,907 employees in 2020 (2019: 1,849 employees).

## Asset and capital structure

Total assets increased by 2.0% to EUR 277.6 million as at end-December 2020 (year-end 2019: EUR 272.1 million). Despite the impairment loss on the deposits at Commerzialbank Mattersburg, the equity ratio was held at 40.7% (year-end 2019: 42.7%). Equity decreased by 2.8% or EUR 3.2 million to EUR 113.0 million (year-end 2019: EUR 116.2 million).

The net cash position (cash and cash equivalents and time deposits less liabilities to banks and other financial liabilities) was EUR 85.0 million as at end-December 2020, which was above the net cash position of EUR 77.8 million recorded at year-end 2019.

Non-current assets amounted to EUR 62.2 million at end-December 2020 (year-end 2019: EUR 71.5 million). The main items here are property, plant and equipment, which totalled EUR 46.6 million (year-end 2019: EUR 48.2 million), and intangible assets which amounted to EUR 9.0 million (year-end 2019: EUR 7.6 million).

Current assets amounted to EUR 215.4 million as at end-December 2020 (year-end 2019: EUR 200.6 million). The principal items here are cash and cash equivalents of EUR 91.3 million (year-end 2019: EUR 74.9 million, including short-term time deposits), trade accounts receivable of EUR 59.3 million (year-end 2019: EUR 58.5 million), and contract assets from contracts with customers of EUR 38.4 million (year-end 2019: EUR 38.4 million).

Around 80% of the cash and cash equivalents of EUR 91.3 million as at end-December 2020 were deposited with nine system-relevant major banks in Austria and Germany. The remaining amount (approximately 20%) was deposited at around 20 other banks in Europe, Australia, Asia, and the Americas.

On the liabilities side, the main item was equity of EUR 113.0 million as at end-December 2020 (year-end 2019: EUR 116.2 million). Non-current liabilities totalled EUR 57.5 million (year-end 2019: EUR 58.9 million). The biggest item here was non-current lease liabilities, which totalled EUR 31.8 million.

Current liabilities totalled EUR 107.2 million at end-December 2020 (year-end 2019: EUR 97.1 million). The principal item here is contract liabilities from contracts with customers totalling EUR 62.8 million (year-end 2019: EUR 48.7 million). The increase of EUR 14.2 million in this item was the largest increase on the liabilities side. Further major items are trade accounts payable totalling EUR 11.9 million (year-end 2019: EUR 13.7 million) and provisions, which amounted to EUR 13.6 million (year-end 2019: EUR 13.5 million).

## Cash flow

The cash flow from operations improved to EUR 42.4 million in 2020 (2019: EUR 34.2 million). After factoring out the impact of the impairment loss for the deposits at Commerzialbank Mattersburg, in line with EBITDA and EBIT, there was an improvement in the pre-tax loss in 2020. This is also reflected to a large extent in the cash flow from operations.

The cash flow from operating activities increased to EUR 54.8 million in 2020 (2019: EUR 17.7 million). The principal positive factors affecting the cash flow, apart from the improvement in the cash flow from operations, were the only limited increase in trade accounts receivable and the rise in contract liabilities. This was countered by a change in other receivables and other liabilities.

The cash outflow for investing activities was EUR 7.0 million in 2020, compared with an outflow of EUR 4.6 million in 2019. Capital expenditures (cash outflows for the purchase of intangible assets, property, plant and equipment) were around the same level as in 2019 at EUR 4.5 million. A total of EUR 2.6 million was spent on the acquisition of ATRiCS and the shares in Nemergent.

The cash outflow for financing activities was EUR 10.1 million in 2020 (2019: cash inflow of EUR 8.0 million). The reduction was mainly due to the cash inflow from the capital increase. While the IPO in May 2019 resulted in an inflow of EUR 21.6 million, in 2020 the inflow from the capital increase for the employee participation programme in May 2020 was EUR 1.3 million (gross proceeds).

The total cash flow in 2020 was EUR 37.7 million (2019: EUR 21.2 million). Cash and cash equivalents were EUR 91.3 million as at end-December 2020 (year-end 2019: EUR 66.9 million). In the year-on-year comparison, it should be noted that at year-end 2019 the cash and cash equivalents included deposits of EUR 12.7 million at Commerzialbank Mattersburg that were due on demand. This item did not include the fixed-term deposits of EUR 18.0 million. Excluding the deposits due on demand at Commerzialbank Mattersburg, at year-end 2019 cash and cash equivalents would have amounted to EUR 54.2 million.

## Business relations with related parties

For details see [➤](#) consolidated financial statements, note 38.



# Segment performance

## Air Traffic Management / ATM

The Air Traffic Management (ATM) segment comprises the ATM Civil business domain (which includes AIM / Aeronautical Information Management) and the ATM Defence business domain. This segment focuses on civil and military air traffic control organisations and therefore generally on one or two customers per country. It is estimated that the market entry barriers are relatively high.

The business domains' products are similar and are based on the same product platform. In the Defence business domain, there is also demand for additional encryption solutions. The safety and quality management requirements are the same: the international regulations for standardisation of air traffic issued by the International Civil Aviation Organization (ICAO) apply. Moreover, the infrastructure to be installed for customers (radar, radio transmission, networks) is similar.

Revenues in the Air Traffic Management segment fell by 3.8% year-on-year to EUR 203.1 million in 2020 (2019: EUR 211.2 million). EBIT was EUR 14.6 million (2019: EUR 10.4 million).

### Highlights from the operating business

There were several highlights in the operating business. Examples are project acceptances in Vienna and Melbourne as part of the Australian OneSky project, by the German Armed Forces, and in Switzerland.

Two assignments of strategic importance are Frequentis' involvement in the AIRlabs Austria innovation lab research project and the declaration of intent on extending the cooperation with defence and security sensor specialist Hensoldt on the next generation of integrated drone defence systems; the two companies are currently working together on the FALKE research project.

## Public Safety & Transport / PST

The Public Safety and Transport segment comprises the Public Safety, Public Transport, and Maritime business domains. Its customers are public authorities or related organisations with monitoring and control functions.

The Public Safety business domain's customers are the police, fire, and emergency rescue services. Police organisations also require additional encryption solutions. Alongside conventional rail operators, the Public Transport business domain's customers include local public transport providers. The Maritime business domain focuses on coastguards and port operators.

The business domains' products are similar and are based on the same product platform. Moreover, the infrastructure to be installed for customers (phones, radio transmission, networks) is similar. Despite several international standardisation efforts, different national and regional requirements and regulations still apply.

Revenues in the Public Safety & Transport segment increased by 4.1% to EUR 96.3 million (2019: EUR 92.4 million). EBIT improved to EUR 12.3 million (2019: EUR 7.0 million).

### Highlights from the operating business

A highlight in the Public Safety business domain was the remote acceptance of a major project for the Norwegian safety network Nødnett.

The Public Transport business domain achieved key milestones in rail projects in Central and Eastern Europe, including remote acceptance in some cases.

In the Maritime business domain, the important acceptance for the GMDSS (Global Maritime Distress and Safety System) for Greenland was conducted remotely.

Of strategic importance is the order received by the BroadPort consortium, led by Frequentis, for phase 2 of the innovative European investment procurement programme BroadWay for the use of LTE/5G for safety-critical broadband communication. An important milestone was achieved in November 2020 when the capability of this system was demonstrated at a Europe-wide interim presentation.

## Research & development

The greatest challenges for customers operating safety-critical services are currently rising cost pressure and continual changes in the operating environment, most recently caused, in part, by the effects of the pandemic. Users need more flexible systems and software solutions to ensure they continue to meet the demanding safety requirements and can adapt operating resources and operational locations easily to meet current needs. Therefore, flexible means of communication and integrated control room solutions are required. The migration of data and voice communication to joint IP networks creates the technical preconditions for greater flexibility, which is needed for remote tasks, for example. At the same time, cybersecurity is becoming more and more important as a result of increased networking.

As a recognised innovation leader in the markets it addresses, Frequentis responds to this by providing IP-based systems. In the next phase, the networks will become the centre of communication solutions. Traditional voice communication systems are being extended by networked voice and data communication systems. Close interaction with customers, with most of whom Frequentis has worked in partnership for many years or even decades, allows early identification and a timely response to technological developments.

Innovations are an important element in Frequentis' corporate strategy. All related activities are managed by the New Business Development department. The present focus is on the ongoing development of the digital (remote) tower technology, drone management, and the use of 5G/LTE for safety-critical applications. Another focal area is developing new business models such as software as a service (SaaS) and cloud solutions.

Future aspects include examining artificial intelligence or blockchain technology for possible use in safety-critical applications. Frequentis' involvement in a wide range of national and EU-funded projects is also focused on such issues in the safety-critical environment. Wherever possible, Frequentis innovations are patent-protected.

## Non-financial information

Frequentis AG publishes a separate consolidated non-financial report, which meets the statutory requirements of Sections 243b and 267a of the Austrian Commercial Code (UGB).

## Consolidated corporate governance report

The consolidated corporate governance report is available at [www.frequentis.com/en](http://www.frequentis.com/en) > Investor Relations > Corporate Governance.

## Opportunity and risk management

Frequentis has implemented an active risk management system throughout the Group. The fundamental aim is to identify opportunities and risks as soon as possible and take suitable measures to maintain profitability and secure the continued existence of the Group. Variable capacity utilisation scenarios are a central risk factor, which the company addresses through extensive scenario management. Together with the risk awareness of the staff, this allows timely recognition and Group-wide counteraction, even in business situations that develop in an unforeseen manner.

The Frequentis Group therefore regularly undertakes an extensive internal evaluation of all relevant risks and opportunities. These are compiled in a Group-wide risk report, which is discussed by an extended management circle. As well as exploiting opportunities, Frequentis enters into risks with a view to enhancing the value of the company. To ensure early identification and proactive management of risks, the Frequentis Group has a sound risk management policy, a Group-wide risk management system, an extensive internal control (ICS) system, and an Internal Audit department.

Essentially, Frequentis systematically evaluates and summarises the strategy, the prevailing competitive landscape, the political situation in the countries with the greatest project exposure, the organisation ensuring professional project execution, and liquidity management. The resulting measures to utilise opportunities and reduce any risks identified are discussed by an extended management circle and the appropriate action is decided on. The Vice President Finance is responsible for this process.

## Project management as an operational mainstay

Risk management is essential in projects, which form Frequentis' core business and are the mainstay of its operations. As part of effective and professional project management, an in-depth risk analysis examines the entire project life cycle. Risks are identified, tracked, mitigated, and eliminated to ensure clear management of risks and results.

The entire project portfolio is managed by a project management board that meets periodically. This board reviews projects and allocates them to the relevant business types. It also drives forward the continuous improvement of project methods and project management processes.

In addition, projects are evaluated several times a year by an extended management circle. All key projects are presented, risk assessments and deviations are discussed, and the action to be taken is agreed. Performance of the projects, invoicing, and receipt of payments are monitored continuously. These project evaluations are supplemented by periodic status meetings in the individual business units, which monitor operating performance and marginal income with a view to the Group's profit.

## Evaluation of risk management

In July 2020, the Executive Board asked the auditor, BDO Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft, to evaluate the risk management with respect to the C rule no. 83 of the Austrian Code of Corporate Governance.

In August 2020, and again in March 2021, as part of the audit of the financial statements, BDO Austria GmbH Wirtschaftsprüfungs- und Steuerberatungsgesellschaft confirmed the functioning and appropriateness of Frequentis' risk management system in accordance with C rule no. 83 of the Austrian Code of Corporate Governance.

## Overview of risks

If any of the risks outlined in this section materialise, this could have an adverse effect on the business, financial condition, and result of operations of the Frequentis Group.

### Risk relating to the COVID-19 (coronavirus) pandemic

The ongoing development of the pandemic could continue to have a negative impact on economic development in the markets in which Frequentis operates and adversely affect the company's business performance. Among other things, as has been seen in connection with the spread of coronavirus, restrictions on freedom to travel, immigration bans, quarantine requirements, reductions in flight schedules and the associated reduction in the number of flights, and restrictions on the production of goods and services could have a detrimental effect on the development of the markets served by Frequentis.

The points listed could result, for example, in delays in the acceptance of products on site or in local acceptance by customers or make such acceptance impossible for an indefinite period. There could also be logistics and supply problems, resulting in supply chain bottlenecks. Customers' investment budgets could be cut back, and customers could be less willing to take decisions as a result of the uncertainty.

## **Risks relating to the (macro)economic and political environment**

### **Dependence on political and economic conditions**

Frequentis' ability to secure contracts and their content, amount, and size depends, among other things, on the volume of air, ship, and rail traffic, the relative importance attributed to safety awareness by the public, and the funds available for the procurement of control centre solutions, systems, and products as well as for maintenance, enhancements, and upgrading of existing solutions, systems, and products.

### **Legitimate/illegitimate utilisation or unavailability of bank guarantees**

Frequentis regularly provides bank guarantees (bid bonds, down payment bonds, performance bonds, warranty bonds) to customers as surety for their contractual claims. Legitimate or illegitimate utilisation of these bank guarantees could result in liquidity problems. Similarly, tender invitations for goods and services to be delivered to customers in countries where Frequentis' domestic relationship banks do not have regular business connections could make it difficult to identify appropriate banks for the issuance of letters of credit in time or at all. If no corresponding bank could be found, Frequentis would not be able to take part in the tender process. Frequentis AG has provided numerous comfort letters on behalf of its subsidiaries. This means that Frequentis AG assumes the risk of contract performance by many of its subsidiaries.

### **Exercise of political influence and protectionism**

Public and semi-public organisations dominate Frequentis' customer structure. Such customers may, for various reasons, prefer suppliers from certain countries over Frequentis.

## **Risks relating to Frequentis' industry and business**

### **Unpredictabilities, which are characteristic of the tender project business, and by seasonal and annual fluctuations in the order situation**

An important part of the Frequentis Group's business is acquiring orders (often through lengthy tender processes) to provide products and services. Competition is intense, and the tender procedure is typically protracted and extensive and necessitates considerable personnel and financial resources. Projects by public and semi-public organisations depend on regulatory decisions, budget considerations, and internal approval and release procedures. If Frequentis does not succeed in winning the tender process, all funds and resources allocated to such projects are frustrated. Delays in the tender process and during project execution may have detrimental impacts on the Group's order intake and operating performance. The larger a project is, the more significant the impact. The order intake, operational performance, and earnings of the Frequentis Group are typically subject to considerable seasonal fluctuations. Usually, the Group generates most of its order intake, earnings, and operating performance in the fourth quarter of any given financial year and its financial results in the first half of a business year are usually negative. Moreover, in most cases, payment depends on the achievement of milestones and the successful finalisation of such projects.

**Fluctuations in earnings due to the impact of major projects**

Frequentis' revenues in any period may fluctuate significantly due to the specific payment dates for major projects. Such contracts cause a significant revenue contribution in one year, compared to other years, in which no such major contracts were obtained.

**Cyberattacks**

Given that Frequentis' business is heavily dependent on IT security, cyberattacks could pose a substantial risk to the company's business, in particular because the technical solutions offered by Frequentis perform safety-critical tasks. If a customer's infrastructure is affected by a cyberattack, and if the vulnerability of the infrastructure is caused by or attributed to a product of the Frequentis Group, this could cause claims for damages, loss of customers, and negatively affect the perception of the reliability of the products of the Frequentis Group, which could have an adverse effect on the business, financial condition, and results of operations of Frequentis Group.

**Changes in technological standards**

The development of products could fail or take more time than permitted by technological progress. Development costs for products with insufficient demand could lead to stranded investments, and the implementation of change programmes could fail or increase the time and cost involved.

**Progressive customer concentration**

A trend towards amalgamations within the public sector and privatisations of public organisations in some of the Frequentis Group's business areas can lead to delays in investment and procurement decisions or a smaller number of customers, each of which has greater market and bargaining power. If few or only one potential customer per country is available, the Frequentis Group's dependency on such customers increases.

**Cost overruns**

Changes in costs and production in projects based on fixed-price contracts might influence the financial result of the relevant project. Expenses necessary to complete projects (in particular, if a project involves significant R&D or engineering work) could be underestimated. This may render certain projects unprofitable or even loss-making.

**Loss of established customers**

Installed base business is the provision of services, updates, upgrades, or enhancements related to products and systems delivered to, and operated by, existing customers of the Frequentis Group. The Frequentis Group believes that it has a competitive advantage in such follow-up projects in relation to competitors who are not familiar with the Frequentis products already operated by such customers. Since customers often rely on the Group's products and services for a long period of time, installed base business sales offer a relatively stable source of income for the Group. A loss of existing customers therefore has a far-reaching effect.

**Defending market positions against competition**

Frequentis is active in highly competitive markets where a few large international companies compete against a number of smaller businesses. Some of Frequentis' competitors have higher market capitalisation and greater financial power, thus they are in a better position to adapt to changes in the market, finance new technologies, and bypass financial bottlenecks.

### **Long-term commitments**

For certain of its projects, Frequentis is obliged to replace system parts or to deliver spare parts for up to 15 years or longer and needs to keep the corresponding products and know-how available. Such commitments could lead to unforeseen increases in storage costs, which tie up the Frequentis Group's funds or could cause complications if suppliers fail to deliver such components in the required quantity and quality or discontinue the supply of such components. In this situation it could be expensive or even impossible for Frequentis to obtain such components from other suppliers or to produce them itself.

### **Non-performance of payment obligations by customers**

Non-performance of payment obligations by a customer, particularly in major projects, may be caused by a customer getting into financial difficulty or becoming insolvent, delays in the performance of a project, tension in the collaboration with the customer, or other reasons. Payment delays by public or semi-public entities could also be caused by a delay in budget negotiations or by political uncertainties.

### **If Frequentis fails to meet quantitative requirements, its know-how might not be sufficient to win new customers or retain existing customers**

Customers' tenders often have quantitative requirements for their projects, e.g. references from previous customers and projects, a minimum annual turnover and/or revenue, or quantitative requirements relating to the Group's employees, e.g. a minimum number of system experts located in the customer's country.

### **Growth through acquisitions**

Acquisitions are associated with a general entrepreneurial risk. Frequentis might not be able to identify and purchase suitable acquisition targets and it might not have sufficient funds for a potential acquisition. Successful integration of the acquired business might be difficult or impossible, the anticipated goals and synergies might be unachievable, and the Frequentis Group could face new risks not evaluated in advance.

### **Further risks in this area:**

- Uncertain, delayed, or deferred orders.
- Non-negotiable contract terms in public tender processes and, in particular, unlimited liability clauses in public-sector contracts.
- Malfunctioning of products and product shortcomings.
- Embargoes and other trade restrictions.
- Generation of inadequate cash flows from operating activities to finance liquidity and net working capital requirements.
- Loss of key personnel and failure to attract qualified employees.
- Fluctuation of raw material and energy prices and labour costs.
- Rising cost pressure triggered, in particular, by competitors in low-wage countries.
- Loss of suppliers or interruptions or bottlenecks in the supply of the Group's services, software programmes, component parts, sub-assemblies, or modules.
- Fluctuations in exchange rates and rising interest rates.
- Failure to deal successfully with the challenges of (organic) growth, and excess capacities or capacity shortages in Frequentis' organisational units.

## Regulatory, legal, and tax risks

### Legal risks relating to public tender contracts

An important aspect of Frequentis' business is the delivery of products and rendering of services that are subject to public tender procedures and therefore exposed to several specific risks. It should be borne in mind that:

- Competition in tender processes is normally very intensive;
- Such processes require considerable human and financial resources over a long period;
- Public tenders may have very disadvantageous contractual terms, which often cannot be negotiated individually;
- Public and semi-public organisations (which dominate Frequentis' customer base) may give preferential treatment to suppliers from certain other countries rather than Frequentis due to protectionism or political influence;
- An order awarded to Frequentis could be challenged by unsuccessful competitors.

### Statutory provisions that define a proportion of domestic content

Some countries, e.g. the USA (Buy American Act) and Australia (Australian Industry Involvement Program), prescribe minimum domestic content by statute. In such situations, Frequentis must purchase local content from local suppliers, or must make acquisitions or direct investments in the relevant market, regardless of the price level and the capacity situation within the Frequentis Group and any resulting underemployed capacity.

### Faulty performance under Frequentis' contracts (including when it is acting as a subcontractor)

This could include complete non-fulfilment, incomplete fulfilment or bad fulfilment, in terms of quality, time, or budget.

### Faulty performance by subcontractors

When Frequentis acts as the main contractor and/or system integrator, which occurs more and more often, it also assumes responsibility for third-party suppliers, which entails additional risks. If a subcontractor provides certain components, which the main contractor has to integrate into an overall solution, the main contractor faces both technological and financial integration risks. In certain circumstances, it may not be possible to complete the subcontract on terms that are essentially equal to those set out in the main contract with the customer. If a subcontractor does not meet its contractual performance obligations, the Frequentis Group might face claims for damages or penalties (which might not be recoverable from the defaulting or non-performing subcontractor) or be compelled to re-assign the outstanding performance to a third party or to provide the remaining performance itself.

### Further risks in this area:

- Damage to customers' assets during on-site work.
- Business activities could be adversely affected by changes in the legal and political framework or the application or interpretation of laws, especially as regards regulatory, commercial, financial, and tax law.
- Failure to successfully protect technology and proprietary know-how or to defend intellectual property.
- Compliance-related risks.



# Internal control system (ICS) for the accounting process

Corporate Accounting comprises those activities that are necessary to prepare annual financial statements and consolidated financial statements in compliance with the law and IFRS.

## Structure of accounting

The accounting function in the Frequentis Group comprises the accounting departments at local companies and the corporate accounting department in Vienna. Book-keeping for several major subsidiaries is carried out directly at the Group's headquarters in Vienna. The local companies draw up financial statements in accordance with local law and then prepare financial statements in accordance with the IFRS. Both sets of financial statements are submitted to Corporate Accounting in Vienna.

Book-keeping for most companies, especially the large companies, is performed using a uniform SAP system. For some local companies, which use other ERP systems, corporate accounting in Vienna uploads the accounts to the SAP system. Consolidation is performed by corporate accounting.

## Consolidation

The IFRS financial statements are drawn up in accordance with the IFRS accounting and valuation policies. The staff responsible for local accounting apply the IFRS. The IFRS of relevance for the consolidated financial statements are outlined in the corporate accounting manual, which is made available to the subsidiaries. If necessary, supplementary information on Group-wide reporting requirements is distributed to the subsidiaries before each annual closing process. Local financial reporting data are checked manually by corporate accounting (mainly plausibility checks) and also undergo automatic, tool-based checking routines. During this process, Accounting works closely with other departments, especially Controlling (e.g. in respect of target/actual comparisons and segment reporting).

The overall consolidation process includes checking the consistency of the data transmitted and plausibilisation of the financial statements as a whole.

To ensure correct and timely completion of the annual report by the publication date, deadlines are set for both the half-year and the annual financial statements. The entire accounting department is notified of these in good time. In addition to the annual report at the end of each financial year, a half-year interim report is published in accordance with IAS 34.

## Controls

The entire accounting function reports to the CFO. Quarterly reports to the Executive Board and the Supervisory Board contain information on order intake, the development of revenue, the income statement, and opportunities and risks. This ensures ongoing oversight of the internal control system. Existing and potential risks are constantly monitored by several bodies. This is based on uniform risk guidelines. The management of the local companies is responsible for implementing these guidelines and ensuring they are observed.

In the Frequentis Group, the internal audit function is a staff department reporting to the CEO. The annual audit schedule is determined by the Supervisory Board's Audit Committee on the basis of a proposal by the internal audit function. Focal areas are examining the effectiveness of the internal control system, compliance with the applicable Group-wide guidelines at individual companies, and special audits triggered by specific events. Audits are conducted locally and at headquarters. The results of audits are presented once a year to the Audit Committee.

## Information pursuant to Section 243a (1) UGB

1. The share capital of Frequentis AG was EUR 13,280,000.00 as at 31 December 2020 and was divided into 13,279,999 no-par bearer shares, all of which are equal in all respects, and one registered share with restricted transferability ("share no. 1"). The holder of share no. 1, Johannes Bardach, is authorised by article 5.1.2 of the articles of association to appoint one third of the members of the Supervisory Board (i.e. one third of the maximum number of shareholder representatives set out in article 5.1.1 of the articles of association).

2. Apart from the following exceptions, there are no restrictions on voting rights or the transfer of shares other than the general provisions of company law. Under article 3.3 of the articles of association, registered share no. 1 can only be transferred with company's consent (restricted transferability). In terms of voting rights, share no. 1 has the same rights as the bearer shares. An agreement on the election of a person nominated by B&C Holding Österreich GmbH as a member of the Supervisory Board of Frequentis AG been concluded between Frequentis Group Holding GmbH and B&C Holding Österreich GmbH.

3. As at 31 December 2020, Frequentis Group Holding GmbH had a direct stake of over 50.0% in Frequentis AG and was thus the direct majority shareholder of Frequentis AG. B&C Holding Österreich GmbH held a stake of over 10.0% in Frequentis AG as at 31 December 2020.

4. As at 31 December 2020, share no. 1 was held by Johannes Bardach. This share has the rights set out in subsection 1 above.

5. Employees who hold shares may exercise their voting rights at the General Meeting.

6. The Executive Board comprises one, two, three, or four people. The members of the Executive Board are appointed by the Supervisory Board for a maximum of five years. Reappointment is permitted.

The articles of association contain the following ruling on the appointment and dismissal of members of the Supervisory Board: The Supervisory Board comprises at least three and at most six members elected by the General Meeting or delegated by the shareholders (shareholder representatives) and a corresponding number of employee representatives delegated in accordance with Section 110 of the Austrian Labour Constitution Act (Arbeitsverfassungsgesetz).

The shareholder of registered share no. 1 is authorised to appoint one third of the members of the Supervisory Board (i.e. one third of the maximum number of shareholder representatives set out in article 5.1.1 of the articles of association).

The Supervisory Board members elected by the General Meeting shall, unless they are elected for a shorter term of office, be elected for the period until the end of the General Meeting that resolves on ratification of their actions for the fourth financial year after their election. The financial year in which they are elected is not included in this calculation. Re-election of a Supervisory Board member is permitted.

The appointment of an elected Supervisory Board member can be revoked by the General Meeting before the end of the term of office. The resolution requires a simple majority of the valid votes cast. Abstentions do not count as votes cast.

The members of the Supervisory Board delegated by shareholders are members of the Supervisory Board for an unlimited period. The parties who delegated them may revoke their appointment at any time and replace them by others. Otherwise the appointment of delegated members of the Supervisory Board may only be terminated in accordance with Section 88 (4), last sentence, of the Austrian Companies Act (AktG). A member whose appointment is terminated in this way may be replaced by the parties who delegated them.

Any member of the Supervisory Board can resign their seat subject to four weeks' notice, even without good cause, by submitting a written letter of resignation to the chairman of the Supervisory Board. The chairman's resignation shall be submitted to his deputy. Re-election of members who leave the Supervisory Board is permitted.

If elected members resign from the Supervisory Board before the end of their term of office, replacements need not be elected until the next Annual General Meeting. However, a replacement must be elected without delay by an Extraordinary General Meeting if the number of shareholder representatives drops below three. Replacements are elected for the remaining term of office of the member who resigned.

The articles of association contain the following ruling on amendments to the articles of association: The Supervisory Board is authorised to make amendments to the articles of association that only affect the wording. Furthermore, the Supervisory Board is authorised to make amendments to the articles of association that result exclusively from the issuance of new shares out of the authorised and/or conditional capital set out in section 3 of these articles of association or from other capital measures.

7. Under the resolution of the Annual General Meeting of 8 April 2019, the Executive Board is authorised, subject to the approval of the Supervisory Board, to increase the company's share capital up to 7 April 2024 by up to EUR 4,720,000 (four million seven hundred and twenty thousand) by issuing up to 4,720,000 (four million seven hundred and twenty thousand) new bearer shares in return for cash or contributions in kind, in one or more tranches, or through a direct subscription offer following acceptance by one or more banks in accordance with Section 153 (6) of the Austrian Companies Act (AktG). The Executive Board is authorised, subject to the approval of the Supervisory Board, to fully or partially exclude shareholders' subscription rights and, subject to the approval of the Supervisory Board, to define further details of the issue conditions (especially the issue price, type of contribution in kind, rights of the shares, exclusion of subscription rights, etc.) (authorised capital). The Supervisory Board is authorised to adopt amendments to the articles of association resulting from the issuance of shares out of the authorised capital.

The Executive Board was authorised by the Extraordinary General Meeting of 20 September 2019, pursuant to Section 65 (1) No. 4 and No. 8, to purchase, via the stock exchange or off-market, bearer shares in the company in an amount of up to 10% of the company's share capital during a period of 30 months from the date of the resolution by the General Meeting, whereby the minimum consideration per share may not be more than 20% below and the maximum consideration per share may not be more than 10% above the average closing price on the stock exchange over the preceding ten trading days. Trading in own shares is excluded from the purpose of purchase. The authorisation may be exercised in full or in part or in several tranches and for one or more purposes by the company, by a subsidiary (Section 189a No. 7 Austrian Commercial Code, UGB) or by a third party for the account of the company or of a subsidiary (Section 189a No. 7 UGB). If the shares are purchased off-market, the purchase may also be effected under exclusion of the shareholders' general right of sale, even for certain shareholders or one individual shareholder. Furthermore, the Executive Board is authorised to reduce the share capital by cancelling shares in the company without a further resolution of the General Meeting. The Supervisory Board is authorised to adopt amendments to the articles of association resulting from the cancellation of shares. There is currently no share purchase programme and the company does not have any treasury shares.

8. Some financing agreements and customer contracts contain customary agreements on a change of control in the event of a takeover within the meaning of Section 243a (1) No. 8 UGB.

9. There are no compensation agreements within the meaning of Section 243a (1) No. 9 UGB.

# Outlook

In 2020, which was dominated at all companies by the COVID-19 pandemic, Frequentis was able to utilise its strengths in digitisation. In this context, it benefited from customers' high confidence in the company, and the fact that installations and a considerable proportion of project acceptances could be performed remotely, despite the travel restrictions. The global presence with own locations in several countries was helpful.

Moreover, for many years Frequentis' corporate culture has permitted mobile working practices (working from home or on-site at customers' premises), so both employees and the existing IT infrastructure handled the shift to working from home very well. As a result of the measures taken in 2020 to maintain operations without interruption wherever possible and the reduction in the other operating expenses (predominantly travel expenses), revenues were EUR 299.4 million in 2020 and EBIT increased to EUR 26.8 million.

The business model proved resilient even in the pandemic conditions in 2020. The products supplied by Frequentis are part of the safety-critical infrastructure, in other words, the essential infrastructure of the relevant countries. This infrastructure always has to be available and ready for operation – irrespective of the number of flights/flight movements or how many times the police, fire service, and emergency rescue services are deployed. That has not changed.

## Order situation

Order intake in the Frequentis Group was EUR 314.6 million in 2020 and orders on hand at year-end 2020 amounted to EUR 427.6 million. It is expected that the orders on hand will result in recognition of revenues of approximately EUR 241.6 million in 2021 and approximately EUR 186.0 million in 2022 and subsequent years.

## Acquisitions

Frequentis' strategy includes searching proactively for attractive M&A opportunities to extend its product portfolio or gain access to new markets.

The acquisition of ATRiCS and the equity investment in Nemergent in 2020 as well as the planned acquisition of business units of the listed US company L3Harris Technologies announced in February 2021 broaden and diversify Frequentis' product portfolio. The proposed transaction with L3Harris comprises the full acquisition of the civil and military ATM voice and communications product lines, and software and cloud solutions for traffic optimisation (traffic synchronisation). The traffic optimisation solutions can help reduce air traffic emissions.

In addition to these acquisitions, L3Harris and Frequentis have entered into cooperation agreements. As an L3Harris technology partner, Frequentis will provide voice communication systems for use in L3Harris' large-scale solutions and service business. The acquisition is expected to be completed in the second half of the year and is subject to competition clearance and regulatory approvals. Since closing and thus the full consolidation of the various L3Harris units is expected to take place at different times in the second half of 2021 and will involve both transaction and post-merger integration costs, these units are not expected to make a significant contribution to revenues and earnings in the 2021 financial year. In 2022, the transaction is expected to contribute revenues of around EUR 30 million.

## Forecast for 2021

The present financial year is characterised by rising demand from customers for software solutions. Commercial technologies, such as cloud-based solutions and 5G/LTE, are continuing their advance into safety-critical control centres operated by the public sector.

Important developments such as digital remote towers and flight information systems to integrate drones into commercial and military airspace are gradually becoming reality. Frequentis is positioned on the front line in all these topics and is therefore also involved in the related standard-setting bodies. Planned capital expenditure (capex) remains at EUR 5 million.

Despite global measures to contain the pandemic and the increasing availability of vaccines, Frequentis faces a number of uncertainties in 2021. It is not possible to make a reliable estimate of the exact effect of the ongoing pandemic on costs (e.g. travel expenses), revenues (e.g. due to the deferral of project acceptances), supply chains, the budgets available, and the potential postponement of investments.

Nevertheless, in 2021 Frequentis aims to maintain revenues and order intake at around the 2020 level, or even increase them. In view of the need to visit customer premises (e.g. for go-lives, maintenance, system upgrades, and marketing and sales activities), travel expenses, in particular, are expected to rise again. Frequentis expects to report an EBIT margin of around 5-7% in 2021 – depending on how the pandemic develops and on the transaction and post-merger integration costs for the planned integration of the L3Harris units.

Vienna, 15 March 2021

# Consolidated Financial Statements

as at 31 December 2020

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## Consolidated income statement

	Note	2020 EUR thousand	2019 EUR thousand
Revenues	(3) (4)	299,374	303,631
Change in inventories of finished goods and work in progress	(3)	-272	9
Own work capitalised	(3) (5)	216	372
Other operating income	(3) (6)	8,559	6,243
<b>Total income (operating performance)</b>		<b>307,877</b>	<b>310,255</b>
Cost of materials and purchased services	(7)	-75,012	-81,597
Personnel expenses	(8)	-157,932	-154,810
Other operating expenses	(9)	-33,016	-43,669
<b>Earnings before interest, taxes, depreciation, amortisation, and impairment losses (EBITDA)</b>		<b>41,917</b>	<b>30,179</b>
Depreciation of property, plant and equipment and amortisation of intangible assets	(10)	-14,037	-12,962
Impairment loss on goodwill	(18)	-1,072	0
<b>Earnings before interest and taxes (EBIT)</b>	(3)	<b>26,808</b>	<b>17,217</b>
Financial income	(11)	94	440
Financial expenses	(12)	-615	-819
Impairment loss on financial assets	(13)	-30,923	-2
Earnings from investments accounted for at equity	(19)	214	148
<b>Profit/loss before tax</b>		<b>-4,422</b>	<b>16,984</b>
Income taxes	(14)	1,033	-4,462
<b>Profit/loss for the period</b>		<b>-3,389</b>	<b>12,522</b>
<b>Profit/loss attributable to:</b>			
Equity holders of the company		-4,036	11,818
Non-controlling interests	(30)	647	704
		<b>-3,389</b>	<b>12,522</b>
<b>Basic earnings per share</b>	(15)	<b>-0.30</b>	<b>0.93</b>
<b>Diluted earnings per share</b>	(15)	<b>-0.30</b>	<b>0.93</b>



# Consolidated statement of comprehensive income

	Note	2020 EUR thousand	2019 EUR thousand
<b>Profit/loss for the period</b>		<b>-3,389</b>	<b>12,522</b>
<b>Items that may be reclassified to the income statement in subsequent periods</b>			
Foreign currency translation	(28)	-784	302
Realised gains/losses from foreign currency translation	(28)	0	-17
Measurement of cash flow hedges	(28) (36)	736	-860
Income taxes relating to cash flow hedges	(28)	-184	215
<b>Items that may not be reclassified to the income statement</b>			
Remeasurement of post-employment benefits	(28) (31)	-703	-1,480
Investments accounted for at equity – amounts recognised in other comprehensive income	(28)	-1	-2
Income taxes relating to the remeasurement of defined benefit plans in other comprehensive income	(28)	176	370
<b>Other comprehensive income, net of tax</b>		<b>- 760</b>	<b>-1,472</b>
<b>Total comprehensive income</b>		<b>-4,149</b>	<b>11,050</b>
<b>Total comprehensive income attributable to:</b>			
Equity holders of the company		-4,813	10,362
Non-controlling interests		664	688
		<b>-4,149</b>	<b>11,050</b>

## Consolidated statement of financial position

ASSETS	Note	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
<b>Non-current assets</b>			
Property, plant and equipment	(16)	46,605	48,244
Intangible assets	(17)	9,020	7,572
Goodwill	(18)	2,886	2,228
Investments accounted for at equity	(19)	1,509	733
Equity instruments	(20)	863	874
Other non-current financial assets		228	189
Time deposits	(21)	0	9,997
Deferred tax assets	(14)	1,092	1,705
		<b>62,203</b>	<b>71,542</b>
<b>Current assets</b>			
Inventories	(22)	12,628	13,805
Trade accounts receivable	(23)	59,318	58,550
Contract assets from contracts with customers	(24)	38,420	38,354
Contract costs	(25)	3,029	2,549
Other current financial assets	(26)	2,750	704
Other current non-financial assets	(26)	7,524	7,325
Income tax receivables		481	4,432
Time deposits	(21)	0	7,998
Cash and cash equivalents	(21)	91,265	66,882
		<b>215,415</b>	<b>200,599</b>
<b>Total assets</b>		<b>277,618</b>	<b>272,141</b>

LIABILITIES AND EQUITY	Note	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
<b>Shareholders' equity</b>			
Share capital	(27)	13,280	13,200
Capital reserves	(28)	21,138	19,976
Retained earnings	(28) (29)	75,863	81,691
Adjustments for foreign currency translation		-1,053	-249
<b>Equity attributable to equity holders of the parent company</b>		<b>109,228</b>	<b>114,618</b>
Non-controlling interests	(30)	3,751	1,568
<b>Total shareholders' equity</b>		<b>112,979</b>	<b>116,186</b>
<b>Non-current liabilities</b>			
Liabilities to banks and other financial liabilities		4,907	5,500
Provisions	(31)	17,212	16,066
Lease liabilities	(37)	31,811	32,788
Other non-current financial liabilities	(33)	1,722	663
Deferred tax liabilities	(14)	1,831	3,840
		<b>57,483</b>	<b>58,857</b>
<b>Current liabilities</b>			
Liabilities to banks and other financial liabilities		1,315	1,609
Contract liabilities from contracts with customers	(32)	62,849	48,682
Trade accounts payable		11,923	13,650
Lease liabilities	(37)	7,292	7,289
Other current financial liabilities	(33)	1,600	3,340
Other current non-financial liabilities	(33)	6,617	7,838
Current tax liabilities		1,981	1,151
Provisions	(34)	13,579	13,539
		<b>107,156</b>	<b>97,098</b>
<b>Total shareholders' equity and liabilities</b>		<b>277,618</b>	<b>272,141</b>

## Consolidated cash flow statement

		2020	2019
	Note	EUR thousand	EUR thousand
Profit/loss before tax		-4,422	16,984
Net interest income/expense		521	378
Foreign currency translation		-222	-33
Profit/loss from the disposal of non-current assets		34	18
Depreciation of property, plant and equipment, amortisation of intangible assets, and impairment loss on goodwill	(16) (17)	15,109	12,962
Earnings from investments accounted for at equity	(19)	-214	-148
Change in provisions	(31) (34)	483	4,001
Impairment loss on time deposits at Commerzialbank Mattersburg	(13)	17,995	0
Impairment loss on current account deposits (due on demand) at Commerzialbank Mattersburg	(13)	12,718	0
Impairment loss on interest receivables from Commerzialbank Mattersburg	(13)	205	0
Other non-cash income/expenses		170	65
<b>Net cash flow from operations</b>		<b>42,377</b>	<b>34,227</b>
Change in inventories	(22)	1,177	-690
Change in trade accounts receivable	(23)	879	-14,154
Change in contract assets	(24)	279	2,496
Change in contract costs	(25)	-479	-852
Change in other receivables	(26)	-2,448	2,463
Change in trade accounts payable		-1,258	-2,048
Change in contract liabilities	(32)	13,781	59
Change in other liabilities	(33)	-2,725	1,895
<b>Change in net working capital</b>		<b>9,206</b>	<b>-10,831</b>
Interest paid		-618	-799
Interest received		87	235
Dividends received		144	104
Income taxes paid/refunded	(14)	3,556	-5,208
<b>Net cash flow from operating activities</b>		<b>54,752</b>	<b>17,728</b>

	2020 Note EUR thousand	2019 EUR thousand
Cash inflows from the sale of intangible assets	7	0
Cash inflows from the sale of property, plant and equipment	64	289
Cash inflows from the sale of securities and equity instruments	6	0
Cash outflows for the purchase of intangible assets	-1,564	-1,560
Cash outflows for the purchase of property, plant and equipment	-2,970	-2,981
Cash outflows for investment in securities, equity instruments, and time deposits	0	-294
Cash outflows for the acquisition of associated companies	-707	-27
Cash outflows for the acquisition of a subsidiary, less acquired cash and cash equivalents	-1,849	0
<b>Net cash flow from investing activities</b>	<b>-7,013</b>	<b>-4,573</b>
Dividends paid to owners	(27)	-1,320
Dividends paid to non-controlling interests	(30)	-540
Cash inflows from capital increase (IPO 2019)	(27)	1,324
Cash outflows for transaction costs for the capital increase	(27)	-892
Cash inflows from non-controlling interests	122	79
Cash inflows from loans and other financing	455	82
Cash outflows for repayment of loans and other financing	-1,821	-3,744
Cash outflows for payments of principal on lease liabilities	(37)	-7,238
<b>Net cash flow from financing activities</b>	<b>-10,081</b>	<b>8,027</b>
Change in cash and cash equivalents		
Net cash flow from operating activities	54,752	17,728
Net cash flow from investing activities	-7,013	-4,573
Net cash flow from financing activities	-10,081	8,027
<b>Net change in cash and cash equivalents</b>	<b>37,658</b>	<b>21,182</b>
<b>Cash and cash equivalents at start of period</b>	<b>66,882</b>	<b>45,543</b>
Cash-flow related change in cash and cash equivalents	37,658	21,182
Foreign currency translation	-556	163
Impairment loss on current account deposits (due on demand) at Commerzialbank Mattersburg	-12,718	0
Other loss allowances	-1	-6
<b>Cash and cash equivalents at end of period</b>	<b>91,265</b>	<b>66,882</b>

For further information on the consolidated cash flow statement, see Note 35.

## Consolidated statement of changes in shareholders' equity

in EUR thousand	Share capital	Capital reserves	IAS 19 reserve (net of tax)	Option reserve (net of tax)	Cash flow hedge reserve (net of tax)	Retained earnings	Foreign currency translation	Equity attributable to equity holders of the parent company	Non-controlling interests	Total shareholders' equity
Note	(27)	(28)	(31)	(29)	(36)	(28)			(30)	
As at 1 January 2020	13,200	19,976	-5,608	63	-675	87,911	-249	114,618	1,568	116,186
Changes due to acquisitions									1,824	1,824
Capital increase	80	1,244						1,324		1,324
Costs of the capital increase		-109						-109		- 109
Related income taxes		27						27		27
Cash inflows from non-controlling interests									122	122
Profit/loss for the period						-4,036		-4,036	647	-3,389
Other comprehensive income			-525		552		-804	- 777	17	- 760
Total comprehensive income			-525		552	-4,036	-804	-4,813	664	-4,149
Dividends						-1,992		-1,992	-427	-2,419
Other changes				169		4		173		173
As at 31 December 2020	13,280	21,138	-6,133	232	- 123	81,887	-1,053	109,228	3,751	112,979

in EUR thousand	Share capital	Capital reserves	IAS 19 reserve (net of tax)	Option reserve (net of tax)	Cash flow hedge reserve (net of tax)	Retained earnings	Foreign currency translation	Equity attributable to equity holders of the parent company	Non-controlling interests	Total shareholders' equity
Note	(27)	(28)	(31)	(29)	(36)	(28)			(30)	
As at 31 December 2018	12,000	245	-4,512		-30	77,124	-534	84,293	1,340	85,633
Changes in accounting policies (IFRS 16)						290		290		290
As at 1 January 2019	12,000	245	-4,512		-30	77,414	-534	84,583	1,340	85,923
Capital increase	1,200	20,400						21,600		21,600
Costs of the capital increase		-892						-892		- 892
Related income taxes		223						223		223
Cash inflows from non-controlling interests									79	79
Profit/loss for the period						11,817		11,817	705	12,522
Other comprehensive income			-1,096		-645	0	285	-1,456	-17	-1,473
Total comprehensive income			-1,096		-645	11,817	285	10,362	688	11,050
Dividends						-1,320		-1,320	-539	-1,859
Other changes				63				63		63
As at 31 December 2019	13,200	19,976	-5,608	63	- 675	87,911	- 249	114,618	1,568	116,186

# Notes to the consolidated financial statements

## 1. General information

### Reporting

The consolidated financial statements of Frequentis AG for the 2020 financial year have been prepared in accordance with the provisions of the International Financial Reporting Standards (IFRS) as adopted by the European Union. Similarly, all interpretations of the International Financial Reporting Interpretations Committee (IFRIC) that were mandatory for 2020 have been applied.

The present consolidated financial statements, including the Group Management Report, comply with Section 245a of the Austrian Commercial Code (UGB) on consolidated financial statements in accordance with the International Financial Reporting Standards.

### Information on the company

These consolidated financial statements include Frequentis AG, registered address Innovationsstrasse 1, 1100 Vienna, Austria, and its subsidiaries (subsequently referred to as the Frequentis Group or the Group).

Its parent company, Frequentis Group Holding GmbH (which holds around 60% of the shares in Frequentis AG), files all required financial statements at its registered office (Dommayergasse 8/15, 1130 Vienna, Austria) and at Vienna Commercial Court under the number FN 477997 m.

Frequentis AG was founded in 1947 and has been registered in the commercial register at Vienna Commercial Court under the number FN 72115 b since 30 August 1948.

According to Section 2 of the articles of association, the purpose of the company is the development, production, distribution, and maintenance of control systems, information processing and transmission systems, and communication systems, especially for air traffic control, road, rail, and water transport, and public safety organisations.

The reporting date is 31 December 2020.

The financial year is 1 January to 31 December 2020.

In the reporting period, the Executive Board comprised:

- Norbert Haslacher, Chairman
- Sylvia Bardach
- Hermann Mattanovich

In the reporting period, the Supervisory Board comprised:

- Johannes Bardach, Chairman
- Dr. Karl Michael Millauer, Deputy Chairman
- Reinhold Daxecker, member
- Dr. Boris Nemsic, member
- Petra Preining, member
- Siegfried Meisel, member pursuant to Section 110 of the Austrian Labour Relations Act (ArbVG)
- Gabriele Schedl, member pursuant to Section 110 ArbVG
- Reinhard Steidl, member pursuant to Section 110 ArbVG

The consolidated financial statements were approved by the Executive Board on the date of signature, subject to approval by the Supervisory Board at its meeting on 31 March 2021.

### Consolidated group

Besides Frequentis AG, which is the parent company of the consolidated group, the consolidated financial statements of Frequentis AG include 6 (2019: 5) domestic subsidiaries and 23 (2019: 21) foreign subsidiaries controlled by Frequentis AG.

The Group controls an entity if it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date when control ends.

Three foreign companies and two domestic companies are included in the consolidated financial statements by applying the equity method. The reporting date for all companies included in the financial statements is 31 December.

- a) Fully consolidated Austrian subsidiaries
  - BlueCall Systems GmbH, Vienna (100%)
  - CNS-Solutions & Support GmbH, Vienna (100%)
  - Frequentis DFS Aerosense GmbH, Vienna (70%)
  - PDTS GmbH, Vienna (100%)
  - skyzr GmbH, Vienna (100%)
  - TEAM Communication Technology Management GmbH, Vienna (51%)
- b) Fully consolidated subsidiaries in Europe
  - ATRiCS Advanced Traffic Solutions GmbH, Freiburg (51%)
  - ELARA Leitstellentechnik GmbH, Aachen (51%)
  - Frequentis Comsoft GmbH, Karlsruhe (100%)
  - Frequentis Czech Republic s.r.o., Prague (100%)
  - Frequentis Deutschland GmbH, Langen (100%)
  - Frequentis France SARL, Toulouse (100%)
  - Frequentis Norway AS, Oslo (100%)
  - Frequentis Romania S.R.L., Cluj-Napoca (100%)
  - Frequentis Slovakia s.r.o., Bratislava (100%)\*
  - Frequentis Solutions s.r.o., Bratislava (100%)\*
  - Frequentis UK Ltd., Twickenham (100%)
  - Secure Service Provision GmbH, Leipzig (80%)
  - Systems Interface Ltd., Bordon (51%)
  - TEAM Technology Management GmbH, Gräfelfing (51%; effective shareholding 26%)



- c) Fully consolidated subsidiaries in the Americas
  - Frequentis California Inc., Columbia (100%)
  - Frequentis Canada Ltd., Ottawa (100%)
  - Frequentis Defense Inc., Columbia (100%)
  - Frequentis do Brasil Assessoria, Serviços e Comércio de Sistemas de Informação e Comunicação Ltda., São Paulo (100%)
  - Frequentis USA Inc., Columbia (100%)
- d) Fully consolidated subsidiaries in Asia
  - Frequentis Middle East Limited, Abu Dhabi (100%)
  - Frequentis (Shanghai) Co. Ltd., Shanghai (100%)
  - Frequentis Singapore Pte. Ltd., Singapore (100%)
- e) Fully consolidated subsidiaries in Australia/Pacific
  - Frequentis Australasia Pty. Ltd., Hendra (100%)
- f) Companies accounted for using the equity method
  - AIRlabs Austria GmbH, Graz (18%)
  - AIRNAV Technology Services Inc., Iloilo (40%)
  - GroupEAD Europe S.L., Madrid (28%)
  - Mission Embedded GmbH, Vienna (20%)
  - Nemergent Solutions S.L., Bilbao (15%)

\* As at 1 January 2021, Frequentis Slovakia s.r.o. was merged into Frequentis Solutions s.r.o., and Frequentis Solutions s.r.o. was renamed Frequentis Solutions & Services s.r.o.

All information on the consolidated group relates to the circumstances as at 31 December 2020.

## Changes to the consolidated group

### ATRICs Advanced Traffic Solutions GmbH:

With effect from 1 April 2020, Frequentis acquired 51% of the shares in ATRiCS Advanced Traffic Solutions GmbH (registered office Freiburg im Breisgau, Germany). This has driven forward Frequentis' growth strategy and extended its product range in the area of tower automation. As an innovative provider of ATM tower automation products, ATRiCS offers software solutions and services for airport operators and air traffic control organisations. Its focus is on integrating and automating workflows for air traffic controllers to reduce workloads and draw attention to potential risk situations, as well as improving safety and increasing capacity at airports.

ATRICs' portfolio of products and services offers a range of direct applications in specific Frequentis projects. It considerably expands Frequentis' products and know-how, especially for larger hubs. There is also great potential in flight data integration, where ATRiCS has established itself as the European market leader for optimising departure sequencing.

The purchase agreement was signed on 5 March 2020 and closing took place on 1 April 2020.

The contractually agreed purchase price comprises the following components:

	Fair value as at 1 April 2020 EUR thousand
<b>Basic purchase price</b>	<b>1,859</b>
Earn-out payment	1,227
Shareholder contribution	436
Receivable due to risk retention	106
<b>Total consideration transferred</b>	<b>3,628</b>

The basic purchase price and the shareholder contribution were not contingent upon any further conditions and payment has already been made. The remaining estimated purchase price liability amounting to EUR 1,345 thousand (including pro rata interest) is included in other liabilities.

The receivable due to risk retention contains a contingent consideration in the form of a non-proportionate dividend to be distributed to the sellers if an existing customer receivable is paid by 31 December 2021. Since the assessment of the outstanding customer receivable has altered, the receivable due to risk retention has been reduced compared with the amount presented in the half-year financial report as at 30 June 2020.

The earn-out payment is based on the relevant annual financial statements in accordance with the German Commercial Code and is defined as follows:

Element of the earn-out payment	Amount in EUR thousand
<b>Target value</b>	<b>3,570</b>
+/- Earnings-related adjustment (achievement of an EBIT target)	-3,570 to 3,570
+/- Net cash/debt as at 31 December 2024	Open
+/- Difference from target working capital as at 31 December 2024	Open
<b>Earn-out claim</b>	<b>Open</b>

For the purpose of the purchase price allocation, Frequentis analysed and revised ATRiCS' corporate plan to arrive at the most realistic measurement of the earn-out payment as at the acquisition date. On this basis, the fair value of the earn-out payment, which is allocated to level 3 of the fair value hierarchy, was measured as follows:

Earn-out	Amount in EUR thousand
<b>Target value</b>	<b>3,570</b>
+/- Earnings-related adjustment (achievement of an EBIT target)	-2,758
+/- Net cash/debt as at 31 December 2024	458
+/- Difference from target working capital as at 31 December 2024	-43
<b>Earn-out claim</b>	<b>1,227</b>

A change in the EBIT target, net cash/debt, and the target working capital would result in the following earn-out payments:

Earn-out	Amount in EUR thousand
<b>EBIT target +10%</b>	<b>1,575</b>
EBIT target - 10%	893
Net cash/debt as at 31 December 2024 +10%	1,273
Net cash/debt as at 31 December 2024 - 10%	1,181
Working capital as at 31 December 2024 +10%	1,313
Working capital as at 31 December 2024 - 10%	1,142

The provisional fair value of the assets acquired and liabilities assumed is as follows:

	Fair value as at 1 April 2020 EUR thousand
<b>Intangible assets</b>	<b>3,208</b>
Property, plant and equipment	149
Trade accounts receivable	1,647
Contract assets	345
Cash and cash equivalents	10
Receivable from shareholder contribution	436
Other assets	44
<b>Deferred tax liabilities</b>	<b>-803</b>
Non-current lease liabilities	-1
Contract liabilities from contracts with customers	-387
Liabilities to banks and other financial liabilities	-472
<b>Trade accounts payable</b>	<b>-80</b>
Current lease liabilities	-3
<b>Other liabilities</b>	<b>-371</b>
<b>Net assets</b>	<b>3,722</b>
Attributable to non-controlling interests	1,824
Attributable to the Frequentis Group	1,898
Goodwill	1,730
<b>Consideration paid</b>	<b>3,628</b>

The goodwill from this acquisition can be allocated, in particular, to the expected synergies from the use of the Group's worldwide distribution network, new technologies, and the utilisation of the results of joint research activities.

The non-controlling interests were measured as 49% of the net assets acquired, excluding any proportionate goodwill.

Transaction costs incurred for the business combination were recognised in current expenses for the period. The receivables assumed do not contain any receivables that are expected to be uncollectable, so the carrying amount corresponds to the fair value.

Since the acquisition, ATRiCS has contributed revenues of EUR 2,998 thousand and EBIT of EUR 1,126 thousand to the consolidated figures of the Frequentis Group. Had ATRiCS been acquired at the beginning of the 2020 financial year, it would have contributed revenues of EUR 3,908 thousand and EBIT of EUR 1,107 thousand to the consolidated figures of the Frequentis Group.

**Other changes to the consolidated group**

In the reporting period, 15% of the shares in Nemergent Solutions S.L. were acquired. This equity investment was made via BlueCall Systems GmbH (a wholly owned subsidiary of Frequentis AG) and is recognised as an associated company because the Frequentis Group exercises significant influence by delegating a representative to Nemergent Solutions' Board of Directors. Further details are given in Note 19. Investments accounted for at equity (associated companies).

TEAM Technology Management GmbH, Germany (registered office Gräfelfing, Germany) was established in March 2020. TEAM Communication Technology Management GmbH (51% of equity held by Frequentis AG) has a 51% stake in this company. In December 2020, skyzr GmbH (registered office Vienna, Austria) was established. BlueCall Systems GmbH holds all shares in this company.

## 2. Accounting policies

The consolidated financial statements are prepared by applying the historical cost convention. Excluded from this principle are derivative financial instruments, equity instruments, and contingent purchase price liabilities, which are measured at fair value, and personnel-related provisions, which are measured using the projected unit credit (PUC) method.

The financial statements of all consolidated companies are prepared using uniform Group-wide accounting policies. There are no significant differences in the accounting policies used for the investments accounted for for at equity compared to the policies applied by the Frequentis Group.

In the event of business combinations, the assets, liabilities, and contingent liabilities of the subsidiaries acquired are measured at fair value at the date of acquisition as specified by IFRS 3. If the fair value of the consideration transferred and the amount of all non-controlling interests in the acquired business exceed the fair value of the acquired identifiable assets and liabilities, the difference is recognised as goodwill. Any excess of the net assets acquired over the fair value of the consideration transferred is recognised in profit or loss, after a reassessment of their measurement.

The consolidated financial statements of Frequentis AG are prepared in euros (EUR). All amounts are reported in thousands of euros (EUR thousand), except where otherwise stated. Rounding may result in minor discrepancies in totals as a result of the use of automatic data processing.

The annual financial statements of subsidiaries whose functional currency is not the euro are translated into the reporting currency (EUR) using the modified closing rate method. Equity items are translated at the historical rates; the other items in the statement of financial position are translated using the average exchange rate as at the reporting date. Income statement items are translated using average annual exchange rates. The foreign currency translation differences arising from different exchange rates are recognised in other comprehensive income (OCI) and are presented in "Foreign currency translation", a separate line item within equity, until the subsidiary is sold.

The following exchange rates are used for translation of the main currencies (exchange rates for EUR 1):

Currency		Closing rate 31 Dec. 2020	Closing rate 31 Dec. 2019	Average rate 31 Dec. 2020	Average rate 31 Dec. 2019
AED	Emirati dirham	4.51	4.02	4.21	4.11
AUD	Australian dollar	1.59	1.60	1.66	1.61
BRL	Brazilian real	6.37	4.52	6.00	4.42
CAD	Canadian dollar	1.56	1.46	1.54	1.48
CNY	Chinese renminbi yuan	8.02	7.82	7.90	7.72
CZK	Czech koruna	26.24	25.41	26.50	25.66
GBP	British pound	0.90	0.85	0.89	0.88
NOK	Norwegian krone	10.47	9.86	10.78	9.84
SGD	Singapore dollar	1.62	1.51	1.58	1.53
RON	Romanian leu	4.87	4.78	4.84	4.75
USD	US dollar	1.23	1.12	1.15	1.12

Revenues, income, expenses, receivables, and liabilities resulting from intercompany transactions, and intercompany profits or losses are eliminated in consolidation, taking into account deferred taxes.

## New and amended standards and interpretations

When preparing the consolidated financial statements, the following amendments to existing IAS/IFRS standards and interpretations, as well as the new standards and interpretations were applied, insofar as they had been endorsed by the European Union by 31 December 2020 and were effective at that date:

- Definition of a Business (amendments to IFRS 3)
- Definition of Material (amendments to IAS 1 and 8)
- References to the Conceptual Framework (amendments conceptual framework)
- Interest Rate Benchmark Reform (amendments to IFRS 9, IAS 39, and IFRS 7)

Where applicable, the above standards and amendments were applied in these consolidated financial statements. The effects of these changes on the financial statements were insignificant.

In addition, some of the following new and amended standards had been endorsed by the EU but were not mandatory for the 2020 financial year. The Frequentis Group did not adopt these standards early on a voluntary basis, even if they had already been endorsed by the EU.

	Newly amended IFRSs	Endorsement by the EU	Effective date	Significant effects
IFRS 16	COVID-19-Related Rent Concessions	9 Oct. 2020	1 June 2020*)	* None
IFRS 4	Extension of the Temporary Exemption from Applying IFRS 9	15 Dec. 2020	2021	None
IFRS 9, IAS 39, IFRS 7, IFRS 4, IFRS 16	Interest-rate Benchmark Reform (amendments)	13 Jan. 2021	2021	None
IAS 16	Property, Plant and Equipment – Proceeds before Intended Use	Planned for 2021	2022	None
IAS 37	Onerous Contracts – Cost of Fulfilling a Contract	Planned for 2021	2022	None
IFRS 3	Reference to the Conceptual Framework	Planned for 2021	2022	None
IAS 1	Classification of Liabilities as Current or Non-Current	Open	2023	None
IFRS 17	Insurance Contracts	Open	2023	None
IAS 1	Disclosure of Accounting Policies	Open	2023	None
IAS 8	Accounting Policies; Changes in Accounting Estimates and Errors	Open	2023	None
	Annual Improvements to IFRS Standards (2018– 2020 Cycle)	Open	2022	None

\*) Companies must apply the amendments to IFRS 16 at the latest from 1 June 2020 for accounting periods starting on or after 1 January 2020.

## Changes in accounting policies

In the reporting period, the presentation of receivables from/payables to affiliated and associated companies and of other assets and other liabilities was changed.

	31 Dec. 2019 EUR thousand	Adjustments EUR thousand	1 Jan. 2020 EUR thousand
<b>Trade accounts receivable</b>	58,527	23	58,550
Receivables from affiliated and associated companies	23	-23	0
Other current assets	8,029	-8,029	0
<b>Other current financial assets</b>		704	704
Other current non-financial assets		7,325	7,325
<b>Trade accounts payable</b>	13,468	182	13,650
Payables to affiliated and associated companies	182	-182	0
Other liabilities	11,178	-11,178	0
Other current financial liabilities		3,340	3,340
Other current non-financial liabilities		7,838	7,838

## Impact of the COVID-19 pandemic

The COVID-19 pandemic triggered a global economic crisis. The Frequentis Group cannot completely avoid general economic developments. However, it supplies safety-critical infrastructure, which has to be upheld and maintained even in periods of crisis.

With a few exceptions, it was possible to continue business unchanged despite the restrictions. Frequentis Group staff had performed many activities on a mobile basis in the past, so switching to fully remote working (e.g. from home) was possible without major difficulties (with the exception of manual work performed on-site at some locations or on customers' premises). Since the ability to travel outside the countries in which the Frequentis Group has locations was very restricted, many customer acceptance procedures were performed using video conferencing, with additional technical and organisational support.

Where the project team was unable to complete work due to lockdowns or travel restrictions, postponement of the acceptance dates was agreed with some customers. In addition, longer payment terms were negotiated in some cases.

Despite the travel restrictions, it was possible to conduct a fair proportion of project acceptances remotely. Consequently, travel expenses were lower in the reporting period. Certain activities such as the installation and go-live of new systems were, and still are, only possible in those countries where Frequentis has its own sites or skilled technical partners, where travel by its staff is still possible, or the work can be performed by the customer with remote support. This means that some systems could not yet be (fully) installed and accepted by customers, resulting in a temporary shift in revenues.

To evaluate and mitigate any impact on the Group, a special crisis team was set up. This team defined various measures to keep operations running as best possible. Working from home and other measures to drive forward customers' projects and maintain supply chains were successful. In view of the lockdowns, the duration of the coronavirus crisis cannot be estimated reliably at present. It cannot be precluded that further lockdowns may be necessary in individual countries in 2021, so there is a certain degree of uncertainty in respect of the future performance of the Frequentis Group. However, since the Group has sufficient resources to continue its business operations, there is no uncertainty regarding its ability to continue as a going concern. The consolidated financial statements have therefore been prepared on a going concern basis. The impact of the COVID-19 pandemic on earnings is as follows:

- In view of the travel restrictions, many business trips could not be undertaken, resulting in a reduction in travel expenses (see Note 9. Other operating expenses).
- All trade shows were cancelled in the reporting period, leading to a reduction in advertising expenses (see Note 9. Other operating expenses).
- In the reporting period, there were no defaults on receivables due to the COVID-19 pandemic because most customers are in the public sector. Although the Frequentis Group considers that, due to its customer structure, there is no increased risk of credit losses, the loss allowance in accordance with IFRS 9 was calculated using a scale factor of 1.5. This increased the loss allowance by EUR 91 thousand (see Note 23. Trade accounts receivable).
- Due to the COVID-19 pandemic, the Frequentis Group assessed whether there is an indication that an asset is impaired. No indications of a pandemic-related impairment were identified but impairment losses were recognised for other reasons in the reporting period. These are outlined in more detail in Note 18. Goodwill.
- In certain cases, postponement of project milestones was negotiated at the request of customers as a result of the COVID-19 pandemic. This resulted in a shift in revenues and rescheduling of payment milestones to a later date.

In the reporting period, the Frequentis Group received various types of government grants totalling EUR 815 thousand. EUR 13 thousand is attributable to an investment subsidy granted to Frequentis AG.

Total government grants comprise the following:

Type of support	Category	Amount in EUR thousand
<b>Support for personnel expenses (short-time working, government grant for personnel costs)</b>	<b>Personnel expenses</b>	<b>762</b>
Reimbursement of wage tax from previous periods	Other operating income	25
Investment grant	Property, plant, and equipment	13
Reduction in corporation tax	Income taxes	8
Reduction in operating costs	Other operating expenses	7
<b>Total government grants</b>		<b>815</b>



The breakdown by region is as follows:

	2020 EUR thousand
Australia/Pacific	472
Americas	160
Europe (excluding Austria)	73
Asia	57
Austria	53
	815

A large proportion of the government grants comprises a job retention subsidy of EUR 401 thousand from the Australian government.

In addition, a Group company in the UK obtained a loan of EUR 56 thousand with a state guarantee, 0% interest in the first year, and no repayment of the principal in the first 18 months.

### Intangible assets, property, plant and equipment

Intangible assets and property, plant and equipment are measured at acquisition or manufacturing cost less accumulated amortisation, depreciation, and impairment losses. The acquisition cost of intangible assets, property, plant, and equipment comprises the purchase price including import duties and non-refundable taxes, and all directly allocable costs incurred to bring the asset to the intended location and condition necessary for it to be capable of operating. The manufacturing cost of self-constructed property, plant and equipment comprises material and production costs and appropriate direct overhead costs.

Borrowing costs that are directly attributable to the acquisition or manufacturing cost of a qualifying asset are capitalised as part of the cost of acquisition or production of the asset. Other borrowing costs are recognised as expenses.

The following useful lives are used for amortisation of intangible assets and depreciation of property, plant and equipment. They are unchanged from the previous year.

Buildings on leased land	5 - 40 years
Technical plant and machinery	3 - 10 years
Other plant, factory and office equipment	2 - 20 years
Software and licences	3 - 10 years

Maintenance and repairs are recognised as current expenses in the year in which the expense is incurred; replacement costs and investments to increase value are capitalised. When an item of property, plant and equipment is derecognised, the acquisition cost and accumulated depreciation are recorded as a disposal and the difference between the disposal proceeds and the carrying amount is recognised in other operating income or expense.

### Goodwill

Goodwill, which results exclusively from business combinations, is not amortised. Instead, it is tested for impairment at least annually.

## Impairment losses

Goodwill and intangible assets with an indefinite useful life acquired in business combinations are tested for impairment at least annually. The impairment test is performed irrespective of whether there is an indication of impairment. For the impairment test, the goodwill is allocated to those cash-generating units that are expected to benefit from the synergies of the business combination.

In accordance with the provisions of IAS 36 "Impairment of Assets", an impairment loss is recognised on goodwill if the carrying amount of the associated cash-generating unit exceeds the higher of the fair value less costs of disposal and the value in use.

Goodwill, intangible assets, and property, plant and equipment are tested for impairment if there are indications of a possible impairment, irrespective whether the asset is still in use or is to be sold. An impairment loss must be recognised for assets if the carrying amount exceeds the higher of the fair value less costs of disposal and the value in use. The value in use is derived from the estimated future cash flows that would be generated by continuing use of the asset over its useful life or that would probably be generated by a potential sale. If the recoverable amount of individual assets cannot be determined, it is determined for the cash-generating unit to which the asset is allocated. If there is significant uncertainty regarding the estimated future cash flows, several risk-weighted cash flow scenarios are used to determine the value in use.

If an impairment test identifies the need to recognise an impairment loss, the corresponding expense is recognised in the line item impairment loss on goodwill.

If there are indications that circumstances that resulted in an impairment loss on property, plant and equipment or intangible assets (other than goodwill) in the past no longer exist, the assets must be assessed to see whether the impairment loss should be reversed.

## Investments accounted for at equity (associated companies)

Associated companies are companies where the Group exercises significant influence over financial and operating policy decisions but does not control or jointly control the investee. Associated companies are included in the consolidated financial statements using the equity method and are initially recognised at acquisition cost. In subsequent periods, the carrying amount of the investment increases or decreases in accordance with the Frequentis Group's share of the profit or loss of the associated company.

An impairment test is performed if there are indications that an investment in a company accounted for using the equity method is impaired. The proportionate goodwill is not tested separately. The impairment test is performed on the entire carrying amount of the investment. Therefore, the impairment losses are not allocated separately to the goodwill contained in the carrying amount of the investment and may therefore be completely reversed in subsequent periods.

## Leases

Since the Frequentis Group has only concluded insignificant contracts as a lessor, only the regulations applicable for lessees are outlined below.

At the inception of a contract, the Frequentis Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date or upon modification of a contract that contains a lease component, the Frequentis Group allocates the contractually agreed consideration based on the relative stand-alone prices of the components. Non-lease components of a contract such as electricity, servicing, etc. are excluded from the calculation of the right-of-use asset. On the commencement date, the Frequentis Group recognises an asset for the right of use granted and a lease liability. The right-of-use asset is initially measured at cost, which corresponds to the initial measurement of the lease liability, adjusted for any initial direct costs and costs of dismantling the underlying asset, less any lease incentives received.

In accordance with IFRS 16, the lease term is essentially the non-cancellable period of the lease. In addition, options to extend or terminate the lease are taken into account.

The lease liability is initially measured on the commencement date at the present value of the lease payments that are not paid at that date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the incremental borrowing rate of the Frequentis Group. The Frequentis Group generally uses the incremental borrowing rate.

To determine the incremental borrowing rate, the Frequentis Group uses interest rates from various external financial sources and adapts these to reflect the lease term.

The lease payments included in the measurement of the lease liability comprise:

- fixed payments, including in-substance fixed payments,
- variable lease payments that depend on an index or (interest) rate,
- amounts expected to be payable by the lessee under residual value guarantees,
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option,
- and penalties for terminating the lease, unless it is reasonably certain that the Frequentis Group will not exercise such termination options.

The right-of-use assets are recognised in the line item within property, plant and equipment where the underlying assets would have been recognised if they had been purchased.

The right-of-use assets are depreciated by applying the straight-line method over the useful life of the leased asset or the term of the lease if this is shorter, including any extension options. Depreciation is based on the following useful lives:

Right-of-use assets for land and buildings	2 - 8 years
Right-of-use assets for other plant, factory and office equipment	2 - 6 years

The carrying amount of the lease liability is subsequently measured using the effective interest method. The lease liability is remeasured if there is a change in future lease payments resulting from a change in the index or the (interest) rate used, if there is a change in the amounts expected to be payable under a residual value guarantee, and if there is a change in the assessment of a purchase, extension or termination option.

In the event of remeasurement of the lease liability, the carrying amount of the right-of-use asset is adjusted by the same amount or the adjustment is recognised in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Frequentis Group has decided not to recognise right-of-use assets and lease liabilities for leases where the underlying leased assets are of low value and for short-term leases. In addition, the option to exclude intangible assets from the scope of IFRS 16 is used. The Frequentis Group recognises the lease payments relating to such leases as expense on a straight-line basis over the term of the lease.

Lease payments are divided into the payments of principal and interest. The payments of principal relating to the leases liabilities are recognised in the cash flow from financing activities, while the interest payments are recognised in the cash flow from operating activities.

### Financial instruments

A financial asset or financial liability is initially measured at fair value plus transaction costs. Financial assets classified at fair value through profit or loss form an exception to this rule. They are initially measured at fair value excluding transaction costs. Trade accounts receivable that do not contain significant financing components are initially measured at the transaction price. Non-derivative financial assets are initially recognised at the settlement date, while derivative financial assets are initially recognised at the trade date. Gains and losses from the disposal of financial instruments are determined by comparing the carrying amount with the proceeds of the sale.

The following categories are used for initial classification and measurement of financial assets:

- At amortised cost
- At fair value through other comprehensive income (FVOCI)
- At fair value through profit or loss (FVTPL)

The classification is performed separately based on the type of instrument: financial derivatives, equity instruments, and debt instruments.

Subsequent measurement of all financial assets depends on the category to which they are assigned.

Financial assets are not reclassified after initial recognition unless the Group alters the business model used to manage its financial assets. In this case, all financial assets affected are reclassified on the first day of the reporting period subsequent to the change in business model.

If a financial asset is a debt instrument, it is measured at amortised cost if both of the following conditions are satisfied and it is not designated at FVTPL:

- it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In the Frequentis Group, all trade accounts receivable, loans, and other receivables with fixed or determinable payments are allocated to this category. These assets are measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, currency gains and losses, derecognition effects, and impairment losses are recognised in profit or loss.

A debt instrument is carried at FVOCI if both of the following conditions are met and it is not carried at FVTPL:

- it is held within a business model whose objective is achieved both by holding financial assets in order to collect contractual cash flows and by selling financial assets, and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

In the Frequentis Group, no instruments were allocated to this category in either 2020 or 2019.

At the date of initial recognition of an equity instrument that is not held for trading, the Group can elect irrevocably to present subsequent changes in the fair value of the investment in other comprehensive income. This option can be selected for each investment on a case-by-case basis.

All financial assets that are not measured at amortised cost or at FVOCI are measured at FVTPL. This comprises all derivative financial assets that are not designated as a cash flow hedge in a hedging relationship. At the date of initial recognition, the Group can irrevocably elect to designate financial assets at FVTPL, even though they meet the criteria for measurement at amortised cost or at FVOCI, if this avoids or significantly reduces an accounting mismatch.

Financial liabilities are classified and measured at amortised cost or at fair value through profit or loss (FVTPL). A financial liability is classified at FVTPL if it is held for trading, is a derivative, or if the derivative is designated as a hedging instrument at the date of initial recognition.

Financial liabilities at FVTPL are measured at fair value and any net gain or loss, including interest expense, is recognised in profit or loss.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expenses and foreign currency translation differences are recognised in profit or loss. Derecognition gains and losses are also recognised in profit or loss.

The Group holds derivatives in the form of forward exchange contracts to hedge currency risks.

At initial recognition and subsequently at each reporting date, derivatives are measured at fair value. Any changes in the fair value are recognised in profit or loss, unless the derivatives are designated in a hedging relationship classified as a cash flow hedge.

In connection with hedging of future cash flows ("cash flow hedges") relating to a recognised receivable or liability or a highly probable future transaction, the effective portion of the change in fair value is recognised in other comprehensive income and any ineffectiveness is recognised in profit or loss. The amounts recognised in other comprehensive income are reclassified to the income statement (revenues, other operating income or other operating expenses) in the period in which the hedged item affects the income statement.

At the initial designation of a hedging relationship, the Group documents the risk management objectives and strategies of the hedge. Further, it documents the economic relationship between the hedged item and the hedging instrument, and whether it expects changes in cash flows from the hedged item and the hedging instrument to offset each other. Hedging instruments were only designated as cash flow hedges for projects where execution commenced prior to 1 January 2019.

A prospective effectiveness test is performed when the derivative is concluded to make a quantitative assessment of the hedging relationship. If the criteria for hedge accounting are met, the financial derivative is designated as a hedging instrument. The effectiveness of the hedge is tested annually using a retrospective effectiveness test based on a hypothetical derivative.

Under IFRS 9, a company may separate the forward and spot elements of a forward transaction and designate only the changes in the fair value of the spot element as hedging instruments. The Frequentis Group applies this option. Accordingly, it has separated the forward element and credit risk relating to the derivatives and recognised them in the income statement. The change in the fair value of the designated element (spot component) is recognised in other comprehensive income.

In the absence of such a documented allocation of derivative financial instruments to highly probable future cash flows, which economically hedge a foreign currency risk, changes in its fair value were recognised in profit or loss.

Receivables are measured at cost. Foreign currency receivables are measured using the average exchange rate on the reporting date.

Provided that an asset is not a purchased or originated credit-impaired asset, it is initially measured using the 12-month expected credit losses concept. This assessment is maintained for subsequent reporting dates. If the credit risk of a financial asset has increased significantly on the reporting date compared with its credit risk at initial recognition, the lifetime expected credit losses method is applied. The lifetime expected credit losses concept must always be applied to trade accounts receivable and to contract assets without a significant financing component.

When determining whether the credit risk of a financial asset has increased significantly since its initial recognition and estimating expected credit losses, the Group uses appropriate and supportable evidence that is relevant and available with economically reasonable effort. This comprises both quantitative and qualitative information and analyses based on the Frequentis Group's historical experience, prospective information, and a solid creditworthiness assessment.

### Inventories

Raw materials and supplies are measured at acquisition or manufacturing cost or net realisable value. For raw materials and supplies, the replacement cost was determined to be the best available measure for their net realisable value.

Work in progress and finished goods are measured at the manufacturing cost or lower net realisable value. The net realisable value is the price that could be obtained in the ordinary course of business less the estimated costs of completion and the estimated cost necessary to make a sale. The manufacturing cost is calculated using all direct costs incurred, and fixed and variable production overheads. Borrowing costs are not recognised because the criteria set out in IAS 23 are not met. The consumption of goods is determined using the moving average cost method.

### IFRS 15 Revenue from Contracts with Customers

The Frequentis Group accounts for customer contracts using the five-step model in accordance with IFRS 15. The first step in the model is identifying the contract with a customer. This is followed by identifying the distinct performance obligations. In this step, distinct goods and services and bundles of goods and services are identified. The third step is determining the transaction price. The transaction price is the amount of consideration the supplying company expects to be entitled to in exchange for transferring the goods or services. The transaction price is then allocated to the identified performance obligations. The final step is recognising revenue when the performance obligation is satisfied. Revenue is recognised either at a point in time or over time.

For the vast majority of the Frequentis Group's contracts with customers, revenue is recognised over time. Revenue is recognised on the basis of the progress towards satisfaction of the performance obligation using the cost-to-cost method. Under this method, revenues are recognised on the basis of the production costs actually incurred in relation to expected total cost. The impact of changes in the estimated total cost is recognised in profit or loss in the period in which it occurs.

For certain services (e.g. repairs) with a short lead time or performance period, orders for spare parts or small parts, and the sale of standard products without customer-specific adaption or extensive processing required to put the product into operation at the customer's premises, revenue is recognised at a point in time. Revenue is recognised when control is transferred to the customer or the performance obligation is completely satisfied.

The contract assets from customer contracts do not contain significant financing components.

Certain costs such as the cost incurred in obtaining a contract and the cost of fulfilling a contract to deliver goods and services to customers are recognised as contract costs (mainly sales commission) and amortised in line with the transfer of control over the goods and services to the customer.

The contract liabilities comprise all obligations from contracts with customers (goods or services) for which the Frequentis Group has already received (or will receive) consideration. This mainly relates to advance payments from customers and services still to be performed for projects already invoiced.

### Employee benefit obligations

The obligations for severance payments, pensions, and anniversary bonuses were measured on the basis of an actuarial report using the projected unit credit method in accordance with IAS 19 "Employee Benefits".

When determining the severance payment obligation, the retirement age was deemed to be the earliest possible date for (early) retirement under the 2018 pension reform.

The pension provisions were established on the basis of an actuarial report. Since the pension insurance policy has been pledged to the Executive Board, it meets the definition of plan assets and the pension provisions are offset against the amount accumulated in the pension insurance scheme in accordance with IAS 19.

The effects of remeasurement of severance and pension obligations are recognised in other comprehensive income. Any past service cost is recognised immediately in profit or loss. The interest cost is recognised together with the service cost in personnel expenses.

### Share-based payment

As part of a long-term share plan, Frequentis AG has granted share-based payment to one member of the Executive Board. This is accounted for in accordance with IFRS 2 "Share-based Payment". The plan is exclusively equity-settled. Frequentis AG therefore measures these instruments at fair value on the grant date, taking into account the performance conditions on which the instruments are granted. The expense is allocated over the specified service period.

### Provisions

Provisions are recognised if there is a present (legal or substantive) obligation arising from a past event, an outflow of economic resources to meet this obligation is probable, and the level of the obligation can be estimated reliably. The provision is measured at the expected settlement amount. Provisions are reviewed at every reporting date and adjusted on the basis of the new assessment. If the interest rate effect is material, non-current provisions are recognised at the present value of the expected outflow to settle the obligation.

### Research and development costs

Research projects are original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge. In the Frequentis Group, research projects generally have a time horizon of 3 – 10 years and their technical and commercial outcome is uncertain. All research expenditures are expensed as incurred (IAS 38.54).

Development projects comprise expenditures that serve to apply theoretical knowledge for technical and commercial use. If the criteria for recognition as an intangible asset pursuant to IAS 38.21 are met, the directly allocable development costs are recognised as an intangible asset; otherwise, the development costs are expensed as incurred. In the reporting period, as well as in the previous year, the technical feasibility of hardware and software development projects either could not be assessed or the research and development phases could not be clearly distinguished. Moreover, confirmation of technological feasibility and commercial usability is generally only obtained shortly before projects are ready for the commercial market. Therefore, the criteria for recognition as an asset were not met in either 2020 or 2019.

### Grants and subsidies

Subsidies granted to compensate for expenses that meet the recognition criteria are recognised immediately in profit or loss in the period in which the expenses are incurred. Grants related to assets, in other words, government grants where the primary condition is that an entity purchases, constructs, or otherwise acquires long-term assets, may be recognised either as deferred income or deducted from the related assets when determining their carrying amount (net presentation).

### Income taxes

Tax expense comprises current and deferred taxes. Current and deferred taxes are recognised in profit or loss, except if they relate to a business combination or to items recognised directly in equity or in other comprehensive income.

Current taxes are the expected tax liability or tax receivable on the taxable profit for the financial year, based on the tax rates that have been enacted or substantially enacted on the reporting date, and all adjustments to the tax liability for previous years.

In accordance with IAS 12, deferred taxes are recognised in the IFRS financial statements for temporary differences between the carrying amounts of assets and liabilities and their tax base.

Deferred taxes are not recognised for:

- taxable temporary differences on initial recognition of goodwill.
- temporary differences on initial recognition of assets or liabilities for a business transaction that is not a business combination and that does not affect either the profit before tax or the taxable profit.
- temporary differences relating to investments in subsidiaries, associated companies, and joint operations, provided that the Frequentis Group is able to control the timing of reversal of temporary differences and it is probable that they will not be reversed in the foreseeable future.

Deferred tax assets and liabilities are netted to the extent that, within an independent Group company, they relate to the same tax authority.

In order to assess whether deferred tax assets are impaired, the Executive Board estimates the probability that these items can be utilised in the future. The ability to utilise deferred tax assets is based on the assumption that taxable profit will be available in the future periods in which the temporary differences will be tax-deductible. The Executive Board includes the planned reversal of deferred tax liabilities and the estimated taxable future profit in its assessment.



## Significant estimates and exercise of discretion

Preparation of the consolidated financial statements in accordance with the generally accepted accounting and valuation principles of the IFRS involves estimates and assumptions that may influence the amount and presentation of the reported assets and liabilities, the disclosure of contingent assets and liabilities as at the reporting date, and the reported income and expenses during the reporting period. The actual amounts may ultimately differ from the estimates and assumptions. Estimates and assumptions are reviewed continuously and revised prospectively.

When preparing the consolidated financial statements, the Frequentis Group made the following judgements:

- a) The Frequentis Group holds less than 20% of the shares and voting rights of two associated companies, but classifies its influence as significant as it is represented on the management of these companies (see Note 19. Investments accounted for at equity [associated companies]).
- b) When assessing the term of leases, especially real estate leases, the Frequentis Group takes into account any extension or termination options where it is reasonably certain that they will be exercised.

The consolidated financial statements include the following items whose measurement depends to a large extent on assumptions and estimates:

- a) Useful life of non-current assets: Property, plant and equipment and purchased intangible assets are recognised at the acquisition or manufacturing cost and depreciated/amortised over their useful life using the straight-line method. Factors such as wear and tear, obsolescence, technical standards, and contract duration are taken into account when determining the useful life.
- b) Estimated impairment of goodwill: The Frequentis Group tests goodwill for impairment annually. The recoverable amount of cash-generating units is determined by calculating their value in use. This is based on corresponding planning calculations, which are naturally based on estimates and assumptions. See Note 18 for information on the assumptions and sensitivity analyses used in the goodwill impairment test.
- c) Revenue is recognised over time based on the progress towards satisfaction of the performance obligation using the input-based method (cost-to-cost method). Invoicing of orders completed over time is based on estimated contract costs, the achievable contract revenue, and the risks associated with the contract. These estimates are regularly reviewed and revised. Although the estimates are made using all information available at the reporting date, changes may occur. These changes may affect both the revenue recognised and the carrying amounts of contract assets.

Evaluating whether two or more contracts with a customer are to be combined or whether a contract with a customer has to be split into a series of performance obligations involves estimates that may affect the recognition of revenue or profit. Variable consideration is estimated at the highest probable amount to which an entitlement exists. These estimates are based, in particular, on expectations and on the historical, present, and forecast information available at the reporting date.

- d) The recognition of provisions for onerous contracts is subject to estimates of the expected contract costs and contract results. These are forecast on the basis of historical experience and current information as at the reporting date.

- e) Post-employment benefit obligations are measured using various parameters such as the discount rate and salary increases. Changes in these parameters may result in a change in the obligation recognised. The sensitivity of post-employment benefit obligations is outlined in Note 31. Non-current provisions.
- f) The recognition of deferred tax assets requires that sufficient taxable income will be generated in the future against which the tax credits and loss carryforwards can be utilised. The assessment as to whether deferred taxes can be recognised is subject to estimates of various factors. Tax matters are subject to uncertainties regarding their assessment by the tax authorities, therefore it cannot be precluded that in individual cases they may reach a different conclusion than the Frequentis Group. If changes in the assessment are probable, a corresponding provision is recorded.
- g) In connection with the acquisition of the shares in ATRiCS Advanced Traffic Solutions GmbH, in addition to the basic purchase price, an earn-out payment was agreed. This is dependent on the achievement of certain earning targets, the level of working capital on 31 December 2024, and the net cash/debt position as at 31 December 2024 (all parameters based on German accounting standards) and which are accounted for as additions to or deductions from the agreed target value. To measure the earn-out liability as at 31 December 2020, assumptions were made on the development of these items. If the actual development differs significantly from the assumptions made, this may impact earnings because the liability is subsequently measured at fair value through profit or loss.
- h) Impairment loss on the deposits at Commerzialbank Mattersburg im Burgenland AG: As at 31 December 2020, all claims against Commerzialbank Mattersburg were fully impaired because, based on the information on the insolvency proceedings, it can be assumed that the recovery quota of the insolvency estate will not be economically relevant. The lawsuits filed by Frequentis Group are still at an early stage and currently do not result in any claim that can be recognised in the financial statements. Depending on the further course of these proceedings, positive effects on earnings may arise if Frequentis is awarded a quota of the insolvency estate or if its claims for compensation in pending legal proceedings are successful.

# Notes to the consolidated income statement

## 3. Segment report

### Operating segments

- Air Traffic Management
- Public Safety & Transport

The main customer groups in the market served by the Air Traffic Management (ATM) segment are civil and military air traffic control and homeland security organisations. The Frequentis Group supports its customers in their central role of air traffic management and efficient and safe control and management of aviation. Product solutions for control centres in the ATM segment range from voice communication, networks, digital (remote) towers, ATC towers, surveillance, AIM (aeronautical information management), and AMHS (aeronautical message handling systems) to ATM/UTM (unmanned traffic management) integration. For the defence sector, the portfolio is supplemented by secure communications and situational awareness applications.

The market served by the Public Safety & Transport (PST) segment comprises public safety (police, fire, and emergency rescue services), public transport (railways), and maritime (coast guard, port operators, and organisations that monitor shipping on inland waterways). The Frequentis Group's PST segment delivers emergency management solutions for police, ambulance, and fire service organisations, search and rescue, coastal surveillance, operations communications, and incident and crisis management.

### Data on the operating segments

The chief operating decision maker of the Frequentis Group is the Executive Board. The accounting policies applied by the individual segments are the same as those for the Frequentis Group. Earnings before interest and taxes (EBIT) are used for internal reporting and correspond to the segment result as defined in IFRS 8.23. There are no inter-segment revenues. The amounts in the column headed reconciliation/consolidation mainly comprise transactions that cannot be allocated clearly to one segment and were undertaken for both segments.

	Air Traffic Management 2020 EUR thousand	Public Safety & Transport 2020 EUR thousand	Reconciliation/ consolidation 2020 EUR thousand	Total 2020 EUR thousand
Revenues	203,138	96,265	-29	299,374
Change in inventories of finished goods and work in progress	-1	-271	0	-272
Own work capitalised	142	0	74	216
Other operating income	6,040	1,597	922	8,559
<b>Total income (operating performance)</b>	<b>209,319</b>	<b>97,591</b>	<b>967</b>	<b>307,877</b>
<b>EBIT</b>	<b>14,634</b>	<b>12,255</b>	<b>-81</b>	<b>26,808</b>
Impairment loss on goodwill	-1,072	0	0	-1,072

	Air Traffic Management 2019 EUR thousand	Public Safety & Transport 2019 EUR thousand	Reconciliation/ consolidation 2019 EUR thousand	Total 2019 EUR thousand
Revenues	211,164	92,440	27	303,631
Change in inventories of finished goods and work in progress	14	-5	0	9
Own work capitalised	10	0	362	372
Other operating income	4,250	878	1,115	6,243
<b>Total income (operating performance)</b>	<b>215,438</b>	<b>93,313</b>	<b>1,504</b>	<b>310,255</b>
<b>EBIT</b>	<b>10,414</b>	<b>6,958</b>	<b>-155</b>	<b>17,217</b>
<b>Impairment loss on goodwill</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

Segment assets and segment liabilities are not disclosed here because internal reporting does not include a breakdown of assets between the two segments.

### Details of Group-wide data

Neither in 2020, nor in 2019, did the Frequentis Group generate more than 10% of its total revenues with any single customer.

In terms of revenue categories, 41% (2019: 52%) of the Group's revenues were generated principally with new products for established customers and existing products sold to new customers, 56% (2019: 46%) comprised IBB (installed base business, i.e. follow-on business for installed systems and solutions), and 2% (2019: 2%) came from other sources (mainly consulting). Around half of the installed base business comprised maintenance contracts.

The regional breakdown of orders received by end-users was as follows:

	2020	2019
Europe	73.7%	63.8%
Americas	11.0%	19.4%
Asia	10.2%	11.6%
Australia/Pacific	2.8%	3.7%
Africa	2.3%	1.5%

Orders on hand as at 31 December 2020 totalled EUR 427,609 thousand (2019: EUR 391,460 thousand). The ATM segment accounted for EUR 247,243 thousand (2019: EUR 233,779 thousand) of this amount and the PST segment for EUR 180,366 thousand (2019: EUR 157,681 thousand).

### Regional breakdown of non-current assets

	2020 EUR thousand	2019 EUR thousand
Austria	38,401	39,550
Europe (excluding Austria)	16,885	14,219
Americas	3,444	4,483
Australia/Pacific	700	437
Asia	589	88
	<b>60,019</b>	<b>58,777</b>

Non-current assets comprise property, plant and equipment, intangible assets, goodwill, and investments in associated companies.

## 4. Revenues

The following comments apply for both segments, because both generate almost all of their revenue with customer-specific production orders and maintenance contracts. Only a few of the products sold are not customised.

Revenues are recognised when the contractually agreed milestones have been achieved. Amounts where the work or services have been performed but which have not yet been invoiced are recognised as contract assets. In principle, invoices are due within thirty days.

Revenues from customer-specific construction contracts and multi-component contracts meet the criteria for recognition of revenue over time based on the progress towards satisfaction of the performance obligation because there is no alternative use for the asset produced and the Frequentis Group has a right to receive payment for the work performed (costs plus an appropriate margin).

Revenues are recognised using the input-based method (cost-to-cost method). Contract assets are only recognised if they exceed the associated advance payments from customers. In the reporting period, contract assets from contracts with customers increased by EUR 66 thousand (2019: EUR 755 thousand), which is the net result of a large number of newly commenced projects and invoiced projects.

In the case of maintenance contracts, the customer generally receives the benefits as the performance obligation is satisfied. Revenue is recognised over time. Exceptions from this rule are certain services (e.g. repairs) with a short lead time or performance period, and orders for spare parts or small parts where the revenue is recognised at a point in time. The revenues from these orders amounted to EUR 11,185 thousand in the reporting period (2019: EUR 13,376 thousand).

In accordance with IFRIC 22, the Frequentis Group measures advance payments made and received in foreign currencies at the transaction exchange rate rather than the closing rate.

All revenues presented below are revenues from contracts with customers pursuant to IFRS 15.

The revenue split by category in the reporting period was as follows:

	2020 EUR thousand	2019 EUR thousand
New products and/or new customer business	123,716	157,565
IBB (installed base business)	168,208	138,678
Other revenues	7,450	7,388
	<b>299,374</b>	<b>303,631</b>

The regional breakdown of revenues by end-users is as follows:

	2020 EUR thousand	2019 EUR thousand
Europe	197,900	184,157
Americas	48,935	56,303
Asia	33,947	39,879
Australia/Pacific	13,964	18,399
Africa	2,669	3,459
Small orders (not allocated)	1,959	1,434
	<b>299,374</b>	<b>303,631</b>

The line item “small orders” relates to revenues from customer contracts that were not allocated to the other categories in the above table.

The transaction price of unsatisfied or only partially satisfied performance obligations was EUR 427.6 million (31 December 2019: EUR 391.5 million) and corresponds to the orders on hand in the Frequentis Group at the reporting date. It is expected that revenues of approximately EUR 241.6 million will be recognised in 2021 and revenues of EUR 186.0 million will be recognised in 2022 and subsequent years. The expected timing of revenue recognition is based on the expected progress towards satisfaction of the performance obligation.

## 5. Own work capitalised

The expenses capitalised in 2020 comprise EUR 216 thousand (2019: EUR 372 thousand) including, among other things, expenses for self-produced internal demonstration and test systems.

## 6. Other operating income

	2020 EUR thousand	2019 EUR thousand
Grants and subsidies for research and development costs	3,341	3,282
Income from research incentives	1,965	1,177
Exchange rate gains and currency differences	240	207
Changes in the fair value of forward exchange contracts	1,625	289
Subsidies related to the COVID-19 pandemic	25	0
Gain from the sale of intangible assets, property, plant and equipment	3	13
Miscellaneous other operating income	1,360	1,275
	<b>8,559</b>	<b>6,243</b>

Grants and subsidies, including research incentives, are recognised in income when the conditions for their granting are fulfilled and they have either already been paid or it is reasonably sure that they will be paid.

The subsidies related to the COVID-19 pandemic comprise a subsidy received for wage taxes for the previous year.

The miscellaneous other operating income relates mainly to compensation from insurance, rental revenue, and revenue from the reversal of loss allowances and provisions.

## 7. Cost of materials and purchased services

	2020 EUR thousand	2019 EUR thousand
Cost of materials	32,621	40,403
Cost of purchased services	42,391	41,194
	<b>75,012</b>	<b>81,597</b>

The reduction of EUR 7,782 thousand in the cost of materials is due to a reduction in the material intensity of the projects invoiced.

## 8. Personnel expenses

	2020 EUR thousand	2019 EUR thousand
Salaries	125,563	122,474
Expenses for severance payments	1,823	1,845
Expenses for pensions	1,162	992
Social security contributions	26,362	26,151
Other voluntary social welfare expenses	3,022	3,348
	<b>157,932</b>	<b>154,810</b>

The headcount at the end of the financial year was 1,923 (2019: 1,850). The average number of employees was 1,907 (2019: 1,849).

EUR 1,800 thousand of the increase in personnel expenses relates to the new companies included in the consolidated group.

The personnel expenses for the reporting period contain receivables of EUR 762 thousand relating to the COVID-19 pandemic. The largest part of these receivables (EUR 401 thousand) comprises government grants for personnel expenses from the Australian government to retain jobs. At three Group companies, short-time working was introduced for part of the workforce for a short period. The government grant received for this was EUR 85 thousand. The remainder of receivables due to the COVID-19 pandemic related either to additional subsidies from local governments for the retention of jobs (EUR 170 thousand) or the reduction in payroll taxes or social security contributions (EUR 106 thousand).

## 9. Other operating expenses

	2020 EUR thousand	2019 EUR thousand
Legal and consulting expenses	8,771	5,522
Travel expenses	4,076	11,861
External personnel	3,021	3,700
Insurance expenses	2,121	2,561
Maintenance	1,835	1,834
Advertising	1,538	2,824
Operating expenses (buildings)	1,157	1,161
Exchange rate differences	1,103	857
Energy	1,088	1,167
Telephone and communications expenses	1,042	1,157
Transport	980	1,236
Licenses (terms of up to 1 year)	903	934
Vehicles	894	940
Cleaning	829	1,065
Other taxes and levies	653	754
Staff recruitment	651	760
Bank charges and bank guarantee fees	633	661
Short-term leases and leases for low-value assets	552	930
Loss allowances for receivables and contract assets	378	250
Losses from the disposal of intangible assets, property, plant and equipment	32	32
Claims for damages	2	663
Miscellaneous	757	2,800
	<b>33,016</b>	<b>43,669</b>

In some expense categories, e.g. travel expenses and advertising, there was an unusual reduction due to the COVID-19 pandemic.

The increase in legal and consulting expenses is mainly due to the lawsuits filed in connection with Commerzialbank Mattersburg (see Note 13. Impairment loss on financial assets) and M&A activities.

The loss allowances contain EUR 382 thousand (2019: EUR 224 thousand) for receivables and EUR -4 thousand (2019: EUR 26 thousand) for contract assets. These are not presented separately in the income statement as the amount is insignificant.

## 10. Depreciation of property, plant and equipment and amortisation of intangible assets

	2020 EUR thousand	2019 EUR thousand
Depreciation of right-of-use assets	7,690	7,093
Depreciation of property, plant and equipment and amortisation of intangible assets	5,953	5,452
Depreciation and amortisation of low-value assets	394	417
	<b>14,037</b>	<b>12,962</b>

Assets with an acquisition or manufacturing cost of up to EUR 800 (country-specific) are defined as low-value assets and are recognised as expenses in the year of acquisition.



## 11. Financial income

	2020 EUR thousand	2019 EUR thousand
Interest and similar income	94	440
	<b>94</b>	<b>440</b>

The interest and similar income exclusively comprises interest income from assets recognised at amortised cost. Interest income is recognised using the effective interest method.

## 12. Financial expenses

	2020 EUR thousand	2019 EUR thousand
Interest and similar expenses	615	819
	<b>615</b>	<b>819</b>

EUR 242 thousand (2019: EUR 438 thousand) of the interest and similar expenses is attributable to IFRS 16. Interest expenses are recognised using the effective interest method.

## 13. Impairment loss on financial assets

Pursuant to the notification of the Austrian Financial Market Authority (FMA) dated 14 July 2020, Commerzialbank Mattersburg im Burgenland AG (Commerzialbank Mattersburg) was prohibited by decree, with immediate effect, from continuing its business operations and an auditor was appointed as government commissioner. Consequently, the bank was also prohibited from paying out any deposits.

At that time, Frequentis AG had deposits in the amount of EUR 30.9 million with Commerzialbank Mattersburg and declared the entire amount due against Commerzialbank Mattersburg on 16 July 2020. This declaration was also addressed to the government commissioner appointed by the FMA. As expected, Frequentis received a negative response thereto on 17 July 2020. On 24 July 2020, Frequentis AG received EUR 100,000 from Einlagensicherung AUSTRIA Ges.m.b.H., the protection entity for Austrian credit institutions, pursuant to the Austrian Deposit Protection and Investor Compensation Act.

On 27 July 2020, the Austrian Financial Market Authority filed an application with Eisenstadt regional court to open insolvency proceedings in respect of the assets of Commerzialbank Mattersburg. The opening of the insolvency proceedings in respect of the assets of Commerzialbank Mattersburg was announced on 28 July 2020. In an interim report dated 24 July 2020, the government commissioner appointed by the Austrian Financial Market Authority stated that, according to an interim status report, Commerzialbank Mattersburg was mathematically over-indebted on 14 July 2020 when the Austrian Financial Market Authority prohibited its business operations. The entire amount of Frequentis AG's claim was filed in the insolvency proceedings on 29 July 2020.

Frequentis AG has engaged a team of lawyers, which is examining all legal options to protect the interests of Frequentis in the best possible manner. This examination includes the possible assertion and prosecution of potential claims against involved legal entities, organisations, and persons. Lawsuits have already been filed in this connection. From the present viewpoint, these lawsuits and the pursuit of further potential claims may take a significant period of time.

As a result of the insolvency, an impairment loss in the amount of EUR 30,918 thousand was recognised on the deposits due on demand and time deposits of Frequentis AG at Commerzialbank Mattersburg and reported in the line item impairment loss of financial assets.

This impairment loss takes into account the fact that, based on the information on the insolvency proceedings and considering the ranking of Frequentis AG's claims (especially those of the deposit insurance) as at the reporting date, it cannot be expected that Frequentis AG will receive an economically relevant quota of the insolvency estate. The lawsuits filed by Frequentis AG are still at an early stage and do not currently give rise to a claim that can be recognised in the financial statements.

The impairment loss on financial assets comprises the following:

	Amount in EUR thousand
<b>Impairment loss on long-term time deposits at Commerzialbank Mattersburg</b>	<b>9,997</b>
Impairment loss on short-term time deposits at Commerzialbank Mattersburg	7,998
Impairment loss on current account deposits (due on demand) at Commerzialbank Mattersburg	12,718
Impairment loss on interest receivables from Commerzialbank Mattersburg	205
Other	5
<b>Total</b>	<b>30,923</b>

## 14. Income taxes

	2020 EUR thousand	2019 EUR thousand
Current income taxes	1,628	4,125
Taxes relating to other periods	-514	7
Non-deductible withholding tax	76	148
Change in deferred tax assets/liabilities	-2,222	182
	<b>-1,032</b>	<b>4,462</b>

The taxes relating to other periods mainly comprise tax credits from the tax assessment of a US subsidiary in 2019, which resulted in retrospective adjustments.

The following table presents the reconciliation from the expected tax rate to the effective tax rate:

	2020 EUR thousand	2019 EUR thousand
Profit/loss before tax	-4,422	16,984
Theoretical tax income/expense based on a tax rate of 25%	-1,106	4,246
Tax additions	168	272
Tax deductions	-503	-322
Changes in tax rates	29	-34
Impairment of goodwill	268	0
Tax losses for which no deferred tax assets are recognised	275	0
Differences in tax rates in foreign tax systems	274	145
Taxes relating to other periods	-514	7
Non-deductible withholding tax	76	148
<b>Actual tax income/expense</b>	<b>-1,033</b>	<b>4,462</b>
<b>Effective tax rate</b>	<b>-23.4%</b>	<b>26.3%</b>

The tax additions comprise non-tax-deductible expenses such as representational expenses. The tax deductions mainly comprise the research subsidy.

Deferred tax assets and liabilities are netted if there is a corresponding legally enforceable claim to netting and the deferred tax assets and liabilities refer to income taxes that are levied by the same tax authority for the same taxable entity.

The deferred tax assets and liabilities recognised in the statement of financial position relate to the following items:

	Assets 2020 EUR thousand	Liabilities 2020 EUR thousand	Assets 2019 EUR thousand	Liabilities 2019 EUR thousand
Property, plant, and equipment	147	-9,446	164	-9,358
Intangible assets	88	-1,047	105	-128
Goodwill	106		143	
Financial assets	50		65	-2
Inventories	21	-87	41	-14
Contract assets from contracts with customers	416	-4,796	163	-4,566
Contract costs		-772		-654
Trade accounts receivable and other assets	94	-2,183	90	-1,383
Cash and cash equivalents and time deposits	0		4	
Option reserve	0		16	
Capital reserve	27		0	
Provisions	2,540	-1,192	2,767	-1,254
Liabilities	9,331	-83	9,491	-123
Contract liabilities from contracts with customers	2,679	-427	3,475	-1,300
Deferred taxes on currency differences, debt consolidation	108	-107	15	-20
Tax loss carryforwards	3,794		128	
<b>Total</b>	<b>19,401</b>	<b>-20,140</b>	<b>16,667</b>	<b>-18,802</b>
Netting	-18,309	18,309	-14,962	14,962
<b>Deferred taxes</b>	<b>1,092</b>	<b>-1,831</b>	<b>1,705</b>	<b>-3,840</b>

Deferred tax liabilities resulting from temporary differences in connection with investments in subsidiaries are not recognised if the date of reversal of the temporary differences can be controlled by the Frequentis Group and it is probable that the temporary differences will not be reversed in the near future. Such temporary differences for which no deferred tax liabilities are recognised amounted to EUR 4,151 thousand (2019: EUR 2,175 thousand).

As at the reporting date, the Frequentis Group had loss carryforwards totalling EUR 16,603 thousand (2019: EUR 656 thousand). Deferred taxes were recognised for loss carryforwards of EUR 15,154 thousand because it is probable that there will be future taxable income against which the Frequentis Group can offset the deferred tax assets. There is no time limit on the use of the loss carryforwards.

In the reporting period, tax income of EUR 601 thousand was received for Austrian corporation tax due to the utilisation of a loss carryback (COVID-19 reserve).

The amount of tax-deductible impairments on equity instruments that is spread over seven years under Austrian tax law is EUR 94 thousand (2019: EUR 140 thousand). Deferred tax assets of EUR 23 thousand (2019: EUR 35 thousand) are recognised for this amount.

There were no material income tax uncertainties as at 31 December 2020.

## 15. Earnings per share

Basic earnings per share are calculated by dividing the result for the period attributable to equity holders of Frequentis AG by the weighted average number of shares outstanding in the reporting period. In the reporting period, the weighted average number of shares was 13,252,240 (2019: 12,772,603).

Diluted earnings per share are calculated by dividing the result for the period attributable to the equity holders of Frequentis AG by the weighted average number of shares issued in the reporting period, adjusted in each case by the dilutive effect of the share-based payment of 27,919 shares. The average weighted number of shares and options was 13,273,701 (2019: 12,775,244).

# Notes to the consolidated statement of financial position

## 16. Property, plant, and equipment

in EUR thousand	Buildings on leased land	Technical plant and machinery	Other plant, factory and office equipment	Advances and plants under construction	Total
<b>Carrying amount as at 31 Dec. 2018</b>	<b>2,717</b>	<b>579</b>	<b>5,792</b>	<b>43</b>	<b>9,131</b>
Adjustments for IFRS 16	38,299	0	808	0	39,107
Foreign currency translation difference	142	0	13	0	155
Reclassification	0	0	43	-43	0
Additions from business combinations	0	0	0	0	0
Addition	6,914	55	3,791	86	10,846
Disposal	-237	-1	-59	0	-297
Depreciation	-6,955	-132	-3,611	0	-10,698
<b>Carrying amount as at 31 Dec. 2019</b>	<b>40,880</b>	<b>501</b>	<b>6,777</b>	<b>86</b>	<b>48,244</b>
Cost of acquisition/production	50,297	3,913	25,976	86	80,272
Accumulated depreciation	-9,417	-3,412	-19,199	0	-32,028
<b>Carrying amount as at 31 Dec. 2019</b>	<b>40,880</b>	<b>501</b>	<b>6,777</b>	<b>86</b>	<b>48,244</b>
<b>Carrying amount as at 31 Dec. 2019</b>	<b>40,880</b>	<b>501</b>	<b>6,777</b>	<b>86</b>	<b>48,244</b>
Foreign currency translation difference	-321	0	-53	0	-374
Reclassification	0	-54	132	-78	0
Additions from business combinations	83	0	66	0	149
Addition	5,691	596	3,443	219	9,949
Disposal	-38	-1	-55	0	-94
Depreciation	-7,319	-138	-3,812	0	-11,269
<b>Carrying amount as at 31 Dec. 2020</b>	<b>38,976</b>	<b>904</b>	<b>6,498</b>	<b>227</b>	<b>46,605</b>
Cost of acquisition/production	54,953	4,225	27,708	227	87,113
Accumulated depreciation	-15,977	-3,321	-21,210	0	-40,508
<b>Carrying amount as at 31 Dec. 2020</b>	<b>38,976</b>	<b>904</b>	<b>6,498</b>	<b>227</b>	<b>46,605</b>

During 2020, the Frequentis Group concluded agreements for the acquisition of property, plant and equipment totalling EUR 251 thousand, which will be delivered and invoiced in 2021.

An investment subsidy of EUR 13 thousand was granted in the reporting period. The cost of acquisition of the related property, plant and equipment was reduced by this amount.

For information on the recognised right-of-use assets resulting from the application of IFRS 16, see Note 37.

## 17. Intangible assets

in EUR thousand	Software and licences	Advances	Total
<b>Carrying amount as at 31 December 2018</b>	<b>6,416</b>	<b>83</b>	<b>6,499</b>
Foreign currency translation difference	0	0	0
Reclassification of advances	8	-8	0
Additions from business combinations	0	0	0
Addition	3,160	186	3,346
Disposal	-10	0	-10
Amortisation	-2,263	0	-2,263
<b>Carrying amount as at 31 December 2019</b>	<b>7,311</b>	<b>261</b>	<b>7,572</b>
Cost of acquisition/production	19,175	261	19,436
Accumulated amortisation	-11,864	0	-11,864
<b>Carrying amount as at 31 December 2019</b>	<b>7,311</b>	<b>261</b>	<b>7,572</b>
<b>Carrying amount as at 31 December 2019</b>	<b>7,311</b>	<b>261</b>	<b>7,572</b>
Foreign currency translation difference	0	0	0
Reclassification of advances	273	-273	0
Additions from business combinations	3,208	0	3,208
Addition	991	23	1,014
Disposal	-6	0	-6
Amortisation	-2,768	0	-2,768
<b>Carrying amount as at 31 December 2020</b>	<b>9,009</b>	<b>11</b>	<b>9,020</b>
Cost of acquisition/production	23,176	11	23,187
Accumulated amortisation	-14,167	0	-14,167
<b>Carrying amount as at 31 December 2020</b>	<b>9,009</b>	<b>11</b>	<b>9,020</b>

In the reporting period, Frequentis spent EUR 12.8 million (2019: EUR 22.1 million) on research and development work that was not ordered by customers which was expensed as incurred. The decrease was due to the COVID-19 pandemic and the consequent focus on software development for customer orders in the Public Safety & Transport segment and temporary savings on development projects.

During 2020, the Frequentis Group concluded agreements for the purchase of intangible assets totalling EUR 221 thousand, which will be received and invoiced in 2021.

## 18. Goodwill

in EUR thousand	Goodwill
<b>Carrying amount as at 31 December 2018</b>	<b>2,228</b>
Foreign currency translation difference	0
Additions from business combinations	0
Addition	0
Disposal	0
Impairment losses	0
<b>Carrying amount as at 31 December 2019</b>	<b>2,228</b>
Cost of acquisition/production	2,228
Accumulated impairment losses	0
<b>Carrying amount as at 31 December 2019</b>	<b>2,228</b>
<b>Carrying amount as at 31 December 2019</b>	<b>2,228</b>
Foreign currency translation difference	0
Additions from business combinations	0
Addition	1,730
Disposal	0
Impairment losses	-1,072
<b>Carrying amount as at 31 December 2020</b>	<b>2,886</b>
Cost of acquisition/production	3,958
Accumulated impairment losses	-1,072
<b>Carrying amount as at 31 December 2020</b>	<b>2,886</b>

For the purpose of impairment testing, goodwill has been allocated to the Frequentis Group's cash-generating units (CGUs) as follows:

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Systems Interface Ltd.	194	1,266
Frequentis Comsoft GmbH	909	909
TEAM Communication Technology Management GmbH	53	53
ATRICs Advanced Traffic Solutions GmbH	1,730	0
	<b>2,886</b>	<b>2,228</b>

Goodwill was tested for impairment when preparing the consolidated financial statements by estimating the recoverable amount of the relevant companies using discounted cash flows for a three-year detailed planning period and a perpetual annuity derived from this.

The impairment test in accordance with IAS 36 was based on detailed plans for earnings, the statement of financial position, and capital expenditure for all cash-generating units for the next three years. These are prepared annually as part of the Group-wide budget planning process, taking into consideration the current business situation. For periods after the budget planning period, a long-term growth rate of 1% (2019: 2%) was determined and used to forecast future cash flows.

Forecast future cash flows were discounted using discount rates based on normal market and country-specific risks.

	Systems Interface Ltd.	Frequentis Comsoft GmbH	TEAM Communication Technology Management GmbH	ATRiCS Advanced Traffic Solutions GmbH
Impairment test 2020				
Interest rate (WACC before taxes)	9.98%	10.75%	9.01%	9.52%
Recoverable amount in EUR thousand	812	30,466	14,518	9,029
Carrying amount of the CGU including goodwill in EUR thousand	2,914	8,554	236	8,537

	Systems Interface Ltd.	Frequentis Comsoft GmbH	TEAM Communication Technology Management GmbH
Impairment test 2019			
Interest rate (WACC before taxes)	11.05%	10.31%	10.34%
Recoverable amount in EUR thousand	4,670	47,471	10,956
Carrying amount of the CGU including goodwill in EUR thousand	4,287	7,910	518

In the sensitivity analyses for the groups of cash-generating units to which significant goodwill has been allocated, a 10% reduction in future cash flows or an increase of one percentage point in discount rates was assumed.

As at the reporting date, the Executive Board did not identify any realistic scenarios for Frequentis Comsoft GmbH and TEAM Communication Technology Management GmbH that would result in impairment of goodwill.

At ATRiCS Advanced Traffic Solutions GmbH, the carrying amount of this CGU, including goodwill, would correspond to the recoverable amount if there was a reduction of 4.8% in cash flows or a slight increase of 0.4% in the discount rate.

For the impairment test on Systems Interface Ltd. in 2020, several risk-weighted cash flow scenarios were taken into consideration when determining the recoverable amount. The change in measurement was necessary due to the considerable uncertainty in the estimation of future cash flows. The uncertainty at Systems Interface Ltd. results in part from the difficult order situation in recent years, which was further intensified by the COVID-19 pandemic. The impairment test on Systems Interface Ltd. resulted in an impairment loss of EUR 1,072 thousand on goodwill.

	Alternative scenario 1	Base scenario	Alternative scenario 2
Probability weight			
Systems Interface Ltd.	40%	50%	10%

**Probability weights:** The management has subjectively assigned probability weights to each scenario on the basis of its experience during periods of recession and its expectations for the economy during and after the COVID-19 pandemic. The management believes that the assignment of probability weights presents a reasonable assessment of the likelihood of the scenarios, taking into account the potential for a more robust recovery on the upside and the risk of a considerably weaker recovery on the downside.

The **base scenario** represents the management's best estimate of the future development of the company's order situation. The growth rate for operating performance is estimated conservatively at 3%.

**Alternative scenario 1** assumes that the impact of the COVID-19 pandemic will reduce the operating performance by 20%, with only a gradual recovery in the future.



**Alternative scenario 2**, which was only given a weight of 10% in the impairment test, assumes a stronger increase in operating performance compared to the base scenario, mainly due to the increase in the number of sales employees.

**Discount rate:** The discount rate applied is the weighted average cost of capital (WACC). The discount rate does not reflect the risks underlying the adjustments to the estimated cash flow. The discount rate is an interest rate after taxes based on the interest rate on 30-year government bonds, taking into account normal market and country-specific risks. This is converted into WACC before taxes.

## 19. Investments accounted for at equity (associated companies)

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Investments in associated companies	1,509	733

Name of associated company	Registered office	Voting rights and shareholding as at 31 Dec. 2020	Voting rights and shareholding as at 31 Dec. 2019
GroupEAD Europe S.L.	Madrid	28%	28%
Mission Embedded GmbH	Vienna	20%	20%
AIRNAV Technology Services Inc.	Iloilo	40%	40%
AIRlabs Austria GmbH	Graz	18%	18%
Nemergent Solutions S.L.	Bilbao	15%	

The reporting date for all associated companies is 31 December and they are all accounted for using the equity method. There were neither any unrealised losses nor any significant restrictions on the repayment of loans. Only AIRlabs Austria GmbH is subject to a restriction on the distribution of profits imposed by the shareholder agreement.

The Frequentis Group has a 28% interest in **GroupEAD Europe S.L.**, Madrid. The carrying amount of this investment developed as follows (based on the most recent available financial statements for 2019 and the dividends already received for 2020):

		2020 EUR thousand	2019 EUR thousand
31 Dec. prior year	Equity interest in GroupEAD Europe S.L.	491	491
	Attributable profit in prior year	88	48
	Less dividend paid for the prior year	-88	-48
	Provisional attributable profit in the reporting period	56	56
	Less dividend paid in the reporting period	-56	-56
31 Dec. reporting period	Equity interest in GroupEAD Europe S.L.	491	491

GroupEAD Europe S.L. acts as operational manager of the EAD system on behalf of EUROCONTROL. The EAD system was developed by the Frequentis Group, which is responsible for technical operation. The close relationship between the technical and operational managers has a positive impact on the quality of service and the customer relationship. In addition, the Frequentis Group is able to use the experience and operational expertise of GroupEAD Europe S.L. in the ongoing development of the EAD system and to develop other AIM systems for the international market.

The next table contains summarised financial information on this company as at the last reporting date (31 December 2019):

<b>GroupEAD Europe S.L.</b>	<b>31 Dec. 2019 EUR thousand</b>	<b>31 Dec. 2018 EUR thousand</b>
Non-current assets	285	218
Current assets	3,043	2,678
Non-current liabilities	0	0
Current liabilities	1,260	970
<b>Net assets (100%)</b>	<b>2,068</b>	<b>1,926</b>
Frequentis Group's share of net assets (28%)	579	539
Dividend paid in the following year	-88	-48
<b>Carrying amount of the stake in the associated company</b>	<b>491</b>	<b>491</b>
Revenues	7,546	7,211
Profit from continuing operations (100%)	516	373
Other comprehensive income (100%)	0	0
<b>Total comprehensive income (100%)</b>	<b>516</b>	<b>373</b>
Total comprehensive income (28%)	144	104
Earnings included in the prior year (28%)	-56	-56
Share of earnings for the following year included due to dividends received (28%)	56	56
<b>Frequentis Group's share of total comprehensive income</b>	<b>144</b>	<b>104</b>

The Frequentis Group holds 20% of the shares and voting rights in **Mission Embedded GmbH**, Vienna. The development of this investment is presented below:

		<b>2020 EUR thousand</b>	<b>2019 EUR thousand</b>
<b>31 Dec. prior year</b>	<b>Equity investment in Mission Embedded GmbH</b>	<b>178</b>	<b>148</b>
	Attributable profit in the reporting period	68	32
	Actuarial losses in accordance with IAS 19	-1	-2
<b>31 Dec. reporting period</b>	<b>Equity investment in Mission Embedded GmbH</b>	<b>245</b>	<b>178</b>

Mission Embedded GmbH was created by the spin-off of the "Mission Embedded" department in 2014 to drive forward the positive development of Frequentis' expertise in hardware and hardware-related software for safety-critical applications by giving it greater independence.

The next table contains summarised financial information on this company as at the last reporting date (31 December 2020):

<b>Mission Embedded GmbH</b>	<b>31 Dec. 2020 EUR thousand</b>	<b>31 Dec. 2019 EUR thousand</b>
Non-current assets	230	213
Current assets	2,167	1,555
Non-current liabilities	172	158
Current liabilities	994	718
<b>Net assets (100%)</b>	<b>1,231</b>	<b>892</b>
Frequentis Group's share of net assets (20%)	246	178
<b>Carrying amount of the stake in the associated company</b>	<b>246</b>	<b>178</b>
Revenues	4,975	4,073
Profit from continuing operations (100%)	342	163
Other comprehensive income (100%)	-4	-10
<b>Total comprehensive income (100%)</b>	<b>338</b>	<b>153</b>
<b>Frequentis Group's share of the profit from continuing operations (20%)</b>	<b>68</b>	<b>32</b>
<b>Frequentis Group's share of other comprehensive income (20%)</b>	<b>-1</b>	<b>-2</b>
<b>Frequentis Group's share of total comprehensive income (20%)</b>	<b>67</b>	<b>30</b>

The Frequentis Group holds 40% of the shares in **AIRNAV Technology Services Inc.**, which is registered in the Philippines (Iloilo). The table shows the development of this investment:

		2020 EUR thousand	2019 EUR thousand
31 Dec. prior year	Equity investment in AIRNAV Technology Services Inc.	37	26
	Attributable profit in the reporting period	3	11
31 Dec. reporting period	Equity investment in AIRNAV Technology Services Inc.	40	37

This company was established in 2017 and operates in the ATM segment. Its operations comprise testing, installation, maintenance services, and on-site training for international customer projects (especially in the Asian and Arab markets).

The Frequentis Group holds 18% of the shares and voting rights in **AIRlabs Austria GmbH**, Graz. The Group has classified its influence as significant due to the significant level of management involvement in this associate.

The table shows the development of this investment:

		2020 EUR thousand	2019 EUR thousand
31 Dec. prior year	Investment in AIRlabs Austria GmbH	27	
	Attributable profit/loss in the reporting period	-1	
	Pro rata contribution to share capital	0	27
31 Dec. reporting period	Investment in AIRlabs Austria GmbH	26	27

In summer 2019, the Austrian Federal Ministry of Transport, Innovation and Technology awarded the AIRlabs consortium led by the FH JOANNEUM university of applied sciences in Graz the contract to create the innovation laboratory **AIRlabs Austria GmbH**. This company was established in December 2019 and registered in the commercial register in January 2020. The purpose of this company is to build and operate testing areas and test infrastructure for drones in Austria, including the related research, development, and registration.

Since AIRNAV Technology Services Inc. and AIRlabs Austria GmbH are not material associated companies, the key financial data are summarised in aggregate form in the following table:

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Non-current assets	48	32
Current assets	1,405	256
Non-current liabilities	18	0
Current liabilities	1,194	41
<b>Net assets (100%)</b>	<b>241</b>	<b>247</b>
<b>Frequentis Group's share of net assets</b>	<b>65</b>	<b>66</b>
Revenues	925	379
Profit/loss for the period	-2	27
Frequentis Group's share of profit/loss for the period	1	11
<b>Frequentis Group's share of other comprehensive income</b>	<b>0</b>	<b>0</b>
<b>Frequentis Group's share of total comprehensive income</b>	<b>1</b>	<b>11</b>

In the reporting period, the Frequentis Group acquired a 15% interest in Nemergent Solutions S.L., which has its registered office in Bilbao. This investment was made through Frequentis' wholly owned subsidiary BlueCall GmbH. A binding Investment Agreement was signed on 7 August 2020. Due to the necessary capital increase, the acquisition of the interest was only effected in November 2020.

Nemergent Solutions S.L. operates in mission-critical services (3GPP), for example, MCPTT (mission-critical push-to-talk) via LTE. The Frequentis Group had previously worked on joint projects in the field of public transport and public safety, where Nemergent Solutions contributed technology for application services and end devices, i.e. mobile terminals for emergency services. This collaboration will now be strategically expanded and deepened because the LTE mobile communications standard offers new opportunities in safety-critical broadband communication.

The Group has classified its influence as significant, despite the 15% shareholding, due to the significant level of management involvement in the associate.

The table shows the development of this investment:

		2020 EUR thousand
November 2020	Purchase price payment	707
31 Dec. reporting period	Equity investment in Nemergent Solutions S.L.	707

Due to materiality considerations Nemergent Solutions was initially accounted for at equity at 31 December 2020, so no profit/loss for the period is presented. Initial recognition resulted in goodwill of EUR 507 thousand, which is presented in investments accounted for at equity. The next table contains summarised financial information on this company as at the last reporting date (31 December 2020):

	31 Dec. 2020 EUR thousand
<b>Nemergent Solutions S.L.</b>	
Non-current assets	253
Current assets	1,489
Non-current liabilities	252
Current liabilities	157
<b>Net assets (100%)</b>	<b>1,333</b>
Frequentis Group's share of net assets (15%)	200
<b>Goodwill</b>	<b>507</b>
<b>Carrying amount of the stake in the associated company</b>	<b>707</b>
Revenues	723
Profit from continuing operations (100%)	143
Other comprehensive income (100%)	0
<b>Total comprehensive income (100%)</b>	<b>143</b>
Frequentis Group's share of the profit from continuing operations (15%)	0
Frequentis Group's share of other comprehensive income (15%)	0
Frequentis Group's share of total comprehensive income (15%)	0

From the annual profit of all associated companies accounted for at equity, a proportionate share of EUR 214 thousand (2019: EUR 148 thousand) is recognised. There were no unrecognised losses in the reporting period or the prior year.

## 20. Equity instruments

The equity instruments held in the reporting period were as follows:

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Altitude Angel Ltd.	863	863
Viennasys Software Entwicklung GmbH	0	11
	<b>863</b>	<b>874</b>

In the reporting period, the 10.29% equity investment in Viennasys Software Development GmbH, with its registered office in Vienna, was sold for EUR 6 thousand.

In November 2020 there was a further financing round for the 6.88% interest in the start-up company Altitude Angel Ltd., Reading, UK, with the same valuation of the company. The Frequentis Group decided not to participate in this financing round, which also included new investors. As a result, its interest has decreased to 4.56%. The fair value as at 31 December 2020 was still EUR 863 thousand.

## 21. Time deposits, cash and cash equivalents

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
<b>Long-term time deposits</b>	<b>10,000</b>	<b>10,000</b>
Loss allowance	-10,000	-3
	<b>0</b>	<b>9,997</b>

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
<b>Short-term time deposits</b>	<b>18,000</b>	<b>8,000</b>
Loss allowance	-18,000	-2
	<b>0</b>	<b>7,998</b>

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
<b>Cash and cash equivalents</b>	<b>103,989</b>	<b>66,892</b>
Loss allowance	-12,724	-10
	<b>91,265</b>	<b>66,882</b>

The cash and cash equivalents comprise investments and bank deposits, all of which are short-term and have an original term of up to three months. The carrying amount of these assets corresponds to their fair value. All components of cash and cash equivalents are freely available to the company.

As at 31 December 2019, the short and long-term time deposits consisted entirely of time deposits at Commerzialbank Mattersburg. In 2020, an impairment loss had to be recognised for the full amount. As at 31 December 2019, the cash and cash equivalents also included deposits of EUR 12,818 thousand at Commerzialbank Mattersburg, which were due on demand. In 2020, an impairment loss was recognised for the full amount less the amount of EUR 100 thousand covered by statutory deposit insurance. For information on the impact of the insolvency of Commerzialbank Mattersburg im Burgenland AG, see the disclosures on the financial result (Note 13. Impairment loss on financial assets).

In accordance with IFRS 9, based on the expected credit losses (ECL) model, loss allowances were established at the date of recognition of bank deposits on the basis of the expected potential credit losses. An expected credit loss of 0.04% was derived for another bank due to a poorer rating and higher balance as at 31 December 2020 and a loss allowance of EUR 6 thousand was recognised.

No loss allowances had to be recognised for the other bank balances due to good ratings and the short-term nature of the deposits (due on demand).

About 80% of the cash and cash equivalents of EUR 91,265 thousand as at 31 December 2020 was deposited with nine system-relevant major banks in Austria and Germany. The remaining amount (approximately 20%) was deposited with approximately 20 other banks in Europe, Australia, Asia, and the Americas.

## 22. Inventories

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Raw materials and supplies	6,567	6,672
Work in progress	411	804
Finished goods	2,081	1,990
Merchandise	2,213	3,120
Advance payments made	1,356	1,219
	<b>12,628</b>	<b>13,805</b>

Work in progress comprises assemblies that were still being processed at the reporting date.

The finished goods are assemblies that are part of overall solutions for customers and can only be invoiced as distinct components of a contract with a customer in exceptional cases. The inventories result from optimisation of manufacturing batches (larger production batches reduce unit costs) and procurement lots, the management of a safety stock for maintenance obligations, and inventories for a major contract with a customer, where delivery and, in this case, invoicing at a point in time, will take place in 2021.

Merchandise comprises tangible assets, mainly future components of customer projects.

The impairment loss on inventories was EUR 509 thousand in 2020 (2019: EUR 1,122 thousand). Reversals of EUR 54 thousand were made in 2020 (2019: EUR 6 thousand). In 2019, there was an increase in impairment losses due to a reduction in long-term requirements.

## 23. Trade accounts receivable

	2020 EUR thousand	2019 EUR thousand
Trade accounts receivable, gross	60,039	59,188
Individual loss allowances	-443	-438
Loss allowance pursuant to IFRS 9	-295	-223
Receivables from affiliated and associated companies	17	23
<b>Total trade accounts receivable, net</b>	<b>59,318</b>	<b>58,550</b>

Trade accounts receivable contain non-current items totalling EUR 915 thousand (31 December 2019: EUR 576 thousand) that have to be recognised as current items pursuant to IAS 1.68.

Trade accounts receivable are not interest-bearing and are generally due within 30 days.

Since most of the Frequentis Group's customers are authorities, government-related businesses or, in the case of general contractors, large international companies, the credit risk is classified as low. One aspect of risk management at the Frequentis Group is that business relationships are only entered into with third parties that are deemed to be creditworthy. The creditworthiness of customers is systematically evaluated and deliveries are only made if they have appropriate credit standing or if adequate steps are taken to address the risks identified.

If a higher risk is identified during the quotation process, credit insurance, advances by customers or letters of credit are used to reduce the credit risk.

All identifiable risks are taken into account by appropriate loss allowances. In the event of default, the receivables are derecognised.

The carrying amounts of financial assets represent the maximum credit risk.

The Frequentis Group uses a loss allowance matrix to measure the expected credit losses (ECLs) on trade accounts receivable. The loss rates are calculated using a "roll-rate" method, which is based on the probability that a receivable will roll through successive stages of delinquency up to derecognition. The roll-rate analysis is performed for the aggregated amount of receivables. The loss rates are based on actual payment and credit loss experience in the past ten years.

The table shows the development of the loss allowance for trade accounts receivable:

	2020 EUR thousand	2019 EUR thousand
<b>As at 31 December of the previous year</b>	<b>661</b>	<b>855</b>
Net impairment pursuant to IFRS 9	72	90
Additions	312	133
Utilisation	-94	-294
Reversal	-213	-123
<b>As at 31 December of the financial year</b>	<b>738</b>	<b>661</b>

The overdue structure of trade accounts receivable as at 31 December 2020 was as follows:

	Weighted average loss rate 2020	Weighted average loss rate 2019	2020 EUR thousand	2019 EUR thousand
<b>Trade accounts receivable, net</b>			<b>59,301</b>	<b>58,527</b>
<b>of which: neither overdue nor impaired</b>	<b>0.06%</b>	<b>0.05%</b>	<b>48,860</b>	<b>43,764</b>
<b>of which, overdue but not impaired</b>				
Up to 30 days	0.26%	0.12%	6,346	8,883
30-60 days	0.56%	0.72%	870	1,707
60-90 days	1.61%	0.93%	913	482
90-180 days	2.63%	1.48%	1,065	2,902
180-210 days	11.12%	7.68%	248	13
> 210 days	16.35%	16.66%	1,000	776

Due to their insignificance, receivables from affiliated and associated companies in the amount of EUR 17 thousand (2019: EUR 23 thousand) are not taken into account in the calculation of the overdue structure.

The Frequentis Group's experience with public-sector customers shows that the payment date often deviates from the due date. This is frequently due to approval processes and budget procedures within the authorities (especially around the turn of the year). Past experience shows that such payment delays do not in themselves indicate a higher risk of default.

Since most customers are in the public sector or are large international companies, the COVID-19 pandemic did not result in any defaults on receivables in 2020. Although longer payment terms have been agreed with some customers, due to its customer structure, the Frequentis Group does not expect an increase in defaults. However, since an increase in insolvencies is expected in 2021 and subsequent years, the Frequentis Group has defined a scale factor of 1.5, which is taken into account when calculating loss allowances pursuant to IFRS 9. This reflects the actual and forecast insolvency rates due to the COVID-19 pandemic. If a customer has been granted a temporary extension of a payment deadline (which may be up to 60 days) due to the COVID-19 pandemic, the payment is still classified as overdue on the basis of the original due date.

## 24. Contract assets from contracts with customers

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Contract assets from contracts with customers	53,591	54,924
Advances from customers	-15,171	-16,570
	<b>38,420</b>	<b>38,354</b>

The contract assets mainly result from performance obligations already satisfied by the Group but not yet invoiced. Contract assets are reclassified to trade accounts receivable when there is an unconditional right to receive consideration. This is normally the case when the Group issues an invoice for the goods and services provided.

The contract assets of EUR 38,354 thousand recognised as at 1 January (2019: EUR 40,850 thousand) include EUR 26,784 thousand (2019: EUR 31,773 thousand) that were invoiced in the reporting period.



Based on expected project progress and contractual clauses, EUR 38,420 thousand (2019: EUR 38,354 thousand) of the total contract assets of EUR 33,004 thousand recognised as at 31 December 2020 (2019: EUR 30,970 thousand) are scheduled for invoicing in the following year. Contract assets with a carrying amount of EUR 5,416 thousand (2019: EUR 7,384 thousand) are not expected to be invoiced until after 2021. Since realisation of the contract assets is expected to take place within a normal business cycle, all contract assets are classified as current.

It is assumed that there are no relevant default risks for contract assets from contracts with customers. The impairment of contract assets recognised in the reporting period amounted to EUR 23 thousand (2019: EUR 26 thousand). The creditworthiness of customers is carefully checked, particularly in the case of orders for which the Group makes advance payments. These orders primarily relate to work for public authorities or major international companies.

Based on the sensitivity analysis, a 10% reduction in contract costs not yet incurred would increase contract assets by EUR 5,239 thousand, while a 10% increase in contract costs not yet incurred would reduce contract assets by EUR 4,770 thousand.

## 25. Contract costs

In the Frequentis Group, contract costs mainly comprise sales commission. These contract costs are recognised and amortised in line with the transfer of control over goods and services to the customer.

The development of capitalised contract costs is as follows:

	2020 EUR thousand	2019 EUR thousand
<b>As at 1 January</b>	<b>2,549</b>	<b>1,697</b>
Contract costs capitalised in the reporting period	2,770	2,718
Amortisation in the reporting period	-2,291	-1,616
Impairment losses	0	-250
<b>As at 31 December</b>	<b>3,028</b>	<b>2,549</b>

The amortisation expense for contract costs in the next 12 months is expected to amount to EUR 1,831 thousand (2019: EUR 1,301 thousand). Since the contract costs are expected to be incurred within a normal business cycle, all contract costs are classified as current.

The Frequentis Group uses the practical expedient of recognising contract costs as an expense if the amortisation period is less than one year.

The amortisation expense for capitalised contract costs is recognised in the cost of materials and purchased services.

The impairment losses recognised in 2019 related to loss-making projects. As a result, the related contract costs were impaired.

## 26. Other current assets

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Prepaid expenses and deferred charges	3,666	3,879
Receivables from research grants and subsidies	2,788	2,185
Receivables from grants and subsidies	1,297	259
Receivables from fiscal authorities (excluding income taxes)	943	1,204
Interest receivables from time deposits	0	205
Positive fair value of cash flow hedges and MTM valuation	1,305	92
Other assets	275	205
	<b>10,274</b>	<b>8,029</b>
of which other current financial assets	2,750	704
of which other current non-financial assets	7,524	7,325

## 27. Share capital and retained earnings

At the Annual General Meeting on 8 April 2019, the Executive Board was authorised, subject to the approval of the Supervisory Board, to increase the share capital of Frequentis AG by up to EUR 6 million up to 7 April 2024 by issuing up to 6 million new no-par value bearer shares in one or more tranches in return for cash or payment in kind. The Executive Board was also authorised, subject to the approval of the Supervisory Board, to fully or partially exclude shareholders' subscription rights and, subject to the approval of the Supervisory Board, to define further details of the issue conditions (especially the issue price, type of contribution in kind, rights of the shares, exclusion of subscription rights, etc.) (authorised capital).

### IPO in 2019

Following the initial public offering (IPO), 13,199,999 bearer shares were admitted to trading on the Vienna Stock Exchange with the admission notification of 6 May 2019 and on the Frankfurt Stock Exchange (regulated market) with the admission decision of 13 May 2019. In the IPO, a total of 2,873,975 shares were placed on the capital market at a price of EUR 18.00 per share. 1,200,000 of these were newly issued shares, while 1,673,975 were shares previously held by Mr. Johannes Bardach and sold by him. In addition to the bearer shares, there is still one registered share with restricted transferability, which is held by Mr. Johannes Bardach. The total number of issued shares as at 31 December 2019 was 13,200,000.

The issue price was EUR 18.00 per share. Since they are no-par value shares, an arithmetical amount of EUR 1,200 thousand of the total proceeds of EUR 21,600 thousand received by Frequentis AG was allocated to the share capital, and the remaining amount of EUR 20,400 thousand was allocated to the capital reserves.

The total cost of the IPO was EUR 2,322 thousand, of which EUR 892 thousand was allocated directly to equity after deduction of the related income taxes of EUR 223 thousand. These were the costs relating to the new shares from the capital increase. Costs of EUR 859 thousand were charged to Mr. Johannes Bardach as they related to the sale of the existing shares. The resulting receivable was settled in full in 2019.

### Capital increase in 2020

The capital increase for cash excluding existing shareholders' subscription rights for the employee participation programme, as resolved by the Executive Board on 2 March 2020 and approved by the Supervisory Board on 27 March 2020, was successfully completed in May 2020. Frequentis AG thus increased its share capital by EUR 80 thousand, from EUR 13,200 thousand to EUR 13,280 thousand by issuing 80,000 new bearer shares in return for cash contributions, excluding the subscription rights of existing shareholders. The subscription price for employees was defined on the basis of the closing price of Frequentis shares on the Vienna Stock Exchange on 4 May 2020 (EUR 16.55) less a discount of 20%, resulting in a share price of EUR 13.24.

Since they are no-par value shares, an arithmetical amount of EUR 80 thousand of the total proceeds of EUR 1,324 thousand received by Frequentis AG was allocated to the share capital, and the remaining amount of EUR 1,244 thousand was allocated to the capital reserves. The 20% discount for employees amounted to EUR 265 thousand and was recognised in personnel expenses.

The total cost of the capital increase was EUR 109 thousand and was recognised directly in equity after deduction of the related income taxes of EUR 27 thousand.

The following table shows the change in the number of shares:

	2020	2019
As at 1 January	13,200,000	12,000,000
Newly issued shares due to the capital increase	80,000	1,200,000
As at 31 December	13,280,000	13,200,000

The 80,000 new shares issued in May 2020 are included in the free float. This resulted in a corresponding slight reduction in the percentage of shares held by other shareholders compared with the situation following the IPO in May 2019. Johannes Bardach still has a shareholding of approximately 68% (approximately 8% held directly and 60% held indirectly via Frequentis Group Holding GmbH), B&C Holding Österreich GmbH holds more than 10% of the shares, and the free float is about 22%.

### Treasury shares

At the Extraordinary General Meeting of Frequentis AG on 20 September 2019, the Executive Board was authorised, for a period of 30 months, to purchase shares in Frequentis AG pursuant to Section 65 (1) No. 4 and Section 8 of the Austrian Companies Act (AktG), both via the stock market and outside the stock exchange, and to exclude the general selling possibilities of shareholders related to such purchase.

Moreover, at the Extraordinary General Meeting of Frequentis AG on 20 September 2019, the Executive Board was authorised, pursuant to Section 65 (1b) AktG, for a period of five years from the date of the resolution, therefore up to and including 19 September 2024, with the consent of the Supervisory Board but without a further resolution by the General Meeting, to sell or use treasury shares, also in a manner other than by sale on the stock exchange or by means of a public offer, in particular to sell or use treasury shares

- a) to grant treasury shares to employees, senior managers, and/or members of the Executive Board or the managing boards of its affiliates, including for purposes of share transfer programs, in particular stock options, long-term incentive plans, and other stock ownership plans,
- b) to deliver treasury shares under convertible bonds issued by Frequentis AG,

- c) as consideration for the acquisition of entities, business operations, parts of business operations or shares in one or several domestic or foreign companies, and
- d) for any other legally permissible purpose

and to exclude the subscription rights of shareholders. This authorisation may be exercised in full or in part or in several tranches and for several purposes.

No treasury shares were purchased in the reporting period and Frequentis AG did not hold any treasury shares as at December 31, 2020.

The change in shareholders' equity is presented in the consolidated statement of changes in shareholders' equity.

### Dividend

The net loss of Frequentis AG stated in the individual financial statements as at 31 December 2020 is EUR -10,542 thousand (31 December 2019: net profit EUR 6,969 thousand) and the accumulated profit is EUR 34,808 thousand (31 December 2019: EUR 47,341 thousand).

The Annual General Meeting of Frequentis AG on 14 May 2020 passed a resolution to pay a dividend of EUR 0.15 per no-par share entitled to the dividend for the 2019 financial year. The payment was contingent upon the legal permissibility on the payment date. Since there were no legal restrictions on distribution of a dividend, the dividend was paid in November 2020 after deduction of 27.5% statutory capital gains tax.

In 2020, the issued shares received a dividend distribution of EUR 1,992 thousand for 2019 (2019 for 2018: EUR 1,320 thousand). That corresponds to a dividend per share of EUR 0.15 in 2020 (2019: EUR 0.10 per share).

## 28. Reserves

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
<b>Capital reserves</b>	<b>21,138</b>	<b>19,976</b>
IAS 19 reserve	-6,133	-5,608
IFRS 2 option reserve	232	63
Cash flow hedge reserve	-123	-675
Retained earnings and other reserves	81,887	87,911
<b>Retained earnings</b>	<b>75,863</b>	<b>81,691</b>

The capital reserves result from transactions with owners. For information on the changes in 2019 and 2020, see the explanation on the capital increase in Note 27. Share capital.

The following table presents the expenses and income and the related tax liability recognised in other comprehensive income:

Item	Amount before income taxes 2020 EUR thousand	Income taxes 2020 EUR thousand	Amount after income taxes 2020 EUR thousand	Amount before income taxes 2019 EUR thousand	Income taxes 2019 EUR thousand	Amount after income taxes 2019 EUR thousand
Foreign currency translation	-784	0	-784	302	0	302
Realised gains/losses from foreign currency translation	0	0	0	-17	0	-17
Measurement of cash flow hedges	736	-184	552	-860	215	-645
Remeasurement of post- employment benefits	-703	176	-527	-1,480	370	-1,110
Investments accounted for at equity – amounts recognised in other comprehensive income	-1	0	-1	-2	0	-2
			<b>- 760</b>			<b>-1,472</b>

## 29. Share-based payment

Frequentis AG agreed long-term incentive programmes with the Chairman of the Executive Board, Mr. Norbert Haslacher, in 2019 and 2020 (LTIP 2019 and LTIP 2020).

The share-based payment is measured in accordance with IFRS 2 at fair value on the grant date. The expense is allocated over the required vesting period. Since the agreements stipulate that the shares awarded under the LTIP cannot be settled in cash, the share-based payment is recognised in a separate item of equity.

The participant in the programmes is not required to make a personal investment in Frequentis AG shares. From the grant date, in each calendar year the beneficiary can sell a maximum of one third of the shares awarded under the LTIP 2019 and the LTIP 2020. In any case, the beneficiary may only sell the number of shares awarded under the LTIP 2019 and the LTIP 2020 or any subsequent long-term incentive plans if, at all times, he holds at least 7,000 of the shares awarded under a long-term incentive plan ("minimum shareholding").

The service period for the fulfilment of the targets has been set at three years. The targets for the key indicators were set by the Supervisory Board. On the settlement date (at the earliest three years after the grant date), assuming 100% target achievement, a maximum of 14,000 shares (LTIP 2019) or 17,000 shares (LTIP 2020) – in both cases gross, i.e., before deduction of taxes and fees – but no more than 200% of the beneficiary's annual gross base salary for the 2019 or 2020 financial year, as applicable, will be granted. Settlement is effected by transferring the number of shares corresponding to the net amount of the award to the respective securities account. Subject to the approval of the Supervisory Board, the settlement date is 30 April 2022 for the LTIP 2019 and 20 April 2023 for the LTIP 2020.

The entitlement to the maximum number of shares arises at 100% target achievement. A lower target achievement level will result in a proportionate reduction in the entitlement. No shares will be allocated if target achievement is less than 50%.

The LTIP 2019 was approved by the General Meeting on 20 September 2019 and the agreement with the Chairman of the Executive Board was signed on 30 September 2019. The agreed targets are based on the total shareholder return (TSR), organic growth of the operating performance, the EBIT margin, the profit margin, and the development of key accounts, employee satisfaction, and customer satisfaction.

The LTIP 2020 was approved by the General Meeting on 14 May 2020 and the agreement with the Chairman of the Executive Board was signed on 15 May 2020. The agreed targets are based on the total shareholder return (TSR), orders on hand, growth in the regions, and growth via acquisitions. Apart from the achievement of the targets, the Executive Board member does not have to provide any consideration for the shares awarded.

In order to qualify for the allocation of shares in Frequentis AG, the targets must be achieved. The achievement of each target is measured over a three-year performance period.

The following table summarises the main conditions for the share-based payment granted in the reporting period:

	LTIP 2020	LTIP 2019
Start of programme	1 Jan. 2020	1 Jan. 2019
Grant date	14 May 2020	30 Sep. 2019
End of service period	31 Dec. 2022	31 Dec. 2021
Vesting date	30 Apr. 2023	30 Apr. 2022
Expected target achievement	103%	74%
Expected number of shares	17,510	10,409
Maximum number of shares	17,000	14,000
Bonus shares allocated	None	None

Of the expected total future expense relating to the LTIP, the portion already earned as at the reporting date is recognised in shareholders' equity. This is based on the fair value on the grant date. The total expected expense for the LTIP obligation is measured at the fair value of the share as at the date of the agreement multiplied by the number of shares granted and the expected target achievement. In the reporting period, EUR 184 thousand (2019: EUR 67 thousand) including payroll-related costs was recognised in personnel expenses in the consolidated statement of comprehensive income for the LTIP 2019 and the LTIP 2020.

For the LTIP 2019 and the LTIP 2020, it is assumed that both the market-oriented target and the non-market-oriented targets will be achieved so the effect of the market-oriented targets must be reflected in the expected level of target achievement and not in the fair value of the shares.

### 30. Non-controlling interests

The non-controlling interests relate to the following subsidiaries:

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
TEAM Communication Technology Management GmbH, Vienna	1,263	1,096
ELARA Leitstellentechnik GmbH, Aachen	369	168
Systems Interface Ltd., Bordon	-615	-89
Secure Service Provision GmbH, Leipzig	346	322
Frequentis DFS Aerosense GmbH, Vienna	90	71
ATRICS Advanced Traffic Solutions GmbH	2,191	
TEAM Technology Management GmbH	107	
	<b>3,751</b>	<b>1,568</b>

Due to the acquisition of the shares in ATRICS Advanced Traffic Solutions GmbH (for details, see Note 1. General Information – Changes to the consolidated group), a carrying amount of EUR 3,722 thousand is presented for the net assets as at the acquisition date. The carrying amount of the acquired non-controlling interests was EUR 1,824 thousand as at the acquisition date.

In the reporting period, TEAM Technology Management GmbH was established as a subsidiary of TEAM Communication Technology Management GmbH. This company, in which Wolfgang Hammerschmidt GmbH holds a 49% stake, acts as a consultant to private and public sector organisations in the planning, procurement, operation, and maintenance of information and communication installations.

TEAM Communication Technology Management GmbH distributed a proportionate dividend of EUR 343 thousand to non-controlling shareholders in the reporting period and Secure Service Provision GmbH distributed a proportionate dividend of EUR 84 thousand.

In the reporting period, two shareholder contributions totalling EUR 24 thousand were received by Frequentis DFS Aerosense GmbH from non-controlling shareholders.

The following table provides information on the statement of financial position of consolidated subsidiaries with material non-controlling interests and the carrying amount of the non-controlling interests (amounts stated in EUR thousand, before intragroup eliminations):

Statement of financial position as at 31 December 2020	Non- current assets*	Current assets	Non- current liabilities	Current liabilities	Net assets	Carrying amount of non- controlling interests
TEAM Communication Technology Management GmbH	235	4,281	259	1,579	2,679	1,263
ELARA Leitstellentechnik GmbH	581	947	331	444	752	369
Systems Interface Ltd.	45	2,304	1,485	2,119	-1,256	-615
Secure Service Provision GmbH	171	1,699	26	113	1,731	346
Frequentis DFS Aerosense GmbH	43	1,145	0	889	299	90
ATRICs Advanced Traffic Solutions GmbH	3,347	3,104	1,041	938	4,472	2,191
TEAM Technology Management GmbH	75	102	14	18	145	107
						<b>3,751</b>

Statement of financial position as at 31 December 2019	Non- current assets	Current assets	Non- current liabilities	Current liabilities	Net assets	Carrying amount of non- controlling interests
TEAM Communication Technology Management GmbH	142	3,689	209	1,386	2,236	1,096
ELARA Leitstellentechnik GmbH	352	312	124	198	342	168
Systems Interface Ltd.	188	2,332	565	2,116	-161	-89
Secure Service Provision GmbH	227	1,596	65	145	1,613	322
Frequentis DFS Aerosense GmbH	44	235	0	43	236	71
						<b>1,568</b>

\* excluding goodwill

The following table provides information on the income statement and statement of comprehensive income of the consolidated subsidiaries with significant non-controlling interests (in EUR thousand):

	Amounts before intragroup elimination				Earnings attributable to non-controlling interests		
	Operating performance	Profit for the period	Other comprehensive income	Total comprehensive income	Profit for the period	Other comprehensive income	Total comprehensive income
<b>2020</b>							
TEAM Communication Technology Management GmbH	8,542	1,149	-6	1,143	563	-3	560
ELARA Leitstellentechnik GmbH	2,788	410	0	410	201	0	201
Systems Interface Ltd.	3,116	-1,116	0	-1,116	-547	20	-527
Secure Service Provision GmbH	2,971	540	0	540	108	0	108
Frequentis DFS Aerosense GmbH	1,533	-16	0	-16	-5	0	-5
ATRiCS Advanced Traffic Solutions GmbH	4,518	720	0	720	368	0	368
TEAM Technology Management GmbH	53	-55	0	-55	-41	0	-41
<b>Total</b>					<b>647</b>	<b>17</b>	<b>664</b>

	Amounts before intragroup elimination				Earnings attributable to non-controlling interests		
	Operating performance	Profit for the period	Other comprehensive income	Total comprehensive income	Profit for the period	Other comprehensive income	Total comprehensive income
<b>2019</b>							
TEAM Communication Technology Management GmbH	8,120	1,282	-34	1,248	628	-17	611
ELARA Leitstellentechnik GmbH	2,231	226	0	226	111	0	111
Systems Interface Ltd.	3,364	-280	0	-280	-137	0	-137
Secure Service Provision GmbH	2,990	603	0	603	121	0	121
Frequentis DFS Aerosense GmbH	3	-59	0	-59	-18	0	-18
<b>Total</b>					<b>705</b>	<b>-17</b>	<b>688</b>



## 31. Non-current provisions

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Provisions for severance payments	15,395	14,475
Provisions for pensions	3,260	3,035
Less pension insurance scheme	-2,696	-2,573
	<b>564</b>	<b>462</b>
Provisions for anniversary bonuses	369	343
Other provisions	884	786
<b>Total non-current provisions</b>	<b>17,212</b>	<b>16,066</b>

Since the life insurance policies are pledged to cover pension obligations, the corresponding amount accumulated in the pension insurance scheme is offset against the pension provisions.

### Provisions for severance payments

This item mainly comprises claims by employees in Austria to one-off severance payments on the basis of statutory regulations and collective agreements. These payments may arise due to dismissal by the employer, termination of the employment contract by mutual consent, retirement or death of the employee. The level of the severance payment depends on the number of years of service with the Frequentis Group and the remuneration applicable when the employee leaves the Group.

The corresponding severance payments will result in outflows between 2021 and 2047.

Obligations for severance payments were measured using the following parameters:

	2020	2019
Interest rate	1.0%	1.3%
Wage and salary trend	3.0%	3.0%
Average term of the defined benefit obligation	11.6 years	12.1 years

The following table provides the reconciliation of the severance payment obligations from the opening to the closing balance for the reporting period:

	2020 EUR thousand	2019 EUR thousand
<b>Present value of severance payment obligations (DBO)</b>		
<b>as at 1 January = provisions as at 1 January</b>	<b>14,475</b>	<b>12,869</b>
Current service cost (CSC)	691	629
Interest cost (IC)	186	252
Actual payments made	-521	-491
Recognised actuarial loss (+)/gain(-)	564	1,216
<b>Present value of severance payment obligations (DBO)</b>		
<b>as at 31 December = provisions as at 31 December</b>	<b>15,395</b>	<b>14,475</b>

The provisions for severance payments relate mainly to employees who joined the Austrian companies in the Frequentis Group before 31 December 2002 as a change in Austrian law led to a switch from defined benefit to defined contribution severance payments on 1 January 2003. The new regulation applies to employees who took up employment with the Group after 31 December 2002. For these employees, the Group pays a monthly contribution to an external post-employment benefit plan which has to guarantee the severance payments, so the Group has no severance payment obligations for these employees. The expenses for this were EUR 902 thousand in the reporting period (2019: EUR 875 thousand).

Presentation of the recognised actuarial gains/losses for severance payment obligations:

	2020 EUR thousand	2019 EUR thousand
Changes in demographic assumptions	0	0
Changes in financial assumptions	507	1,130
Other changes	57	86
<b>Total</b>	<b>564</b>	<b>1,216</b>

The main risk relating to severance payment obligations is the development of inflation and salary increases.

The following sensitivity analysis for severance payment obligations (amounts in EUR thousand) shows the effect of changes in the key actuarial parameters, while the remaining assumptions remained unchanged.

Interest rate	Salary increases	DB0 31 Dec. 2020
1.0%	3.5%	16,269
0.85%	3.0%	15,658
1.0%	3.0%	15,395
1.15%	3.0%	15,139
1.0%	2.5%	14,579

Interest rate	Salary increases	DB0 31 Dec. 2019
1.3%	3.5%	15,340
1.15%	3.0%	14,734
1.3%	3.0%	14,475
1.45%	3.0%	14,222
1.3%	2.5%	13,669

## Provisions for pensions

In principle, the pension benefits for employees are provided by state social security institutions. The Frequentis Group has a legal obligation to pay pension and health care contributions for its employees. In addition, there are the defined benefit obligations outlined below.

The pension benefit obligations are defined benefit obligations arising from individual commitments to current members of the Executive Board and one former member of the Executive Board. The beneficiaries receive a lifelong monthly retirement pension or pension benefits for surviving dependants, resulting from reinsurance contributions.

The plan assets comprise funded insurance which is pledged to the entitled beneficiaries.

The pension benefit obligations were measured using the following parameters:

	2020	2019
Interest rate	1.0%	1.3%
Retirement age	60/65 years	60/65 years
Average term of the defined benefit obligation	14.73 years	14.18 years

Development of pension provisions and plan assets:

	2020 EUR thousand	2019 EUR thousand
Present value of the defined benefit obligation (DBO) as at 1 January	3,035	2,647
Fair value of plan assets	-2,573	-2,434
<b>+ Provisions/- surplus plan assets as at 1 January</b>	<b>462</b>	<b>213</b>
Present value of the defined benefit obligation (DBO) as at 1 January	3,035	2,647
Service cost	109	131
Interest cost	39	52
Pension payments	-89	-89
Recognised actuarial losses (+)/gains (-)	166	294
<b>Present value of the pension benefit obligations (DBO) as at 31 December</b>	<b>3,260</b>	<b>3,035</b>
Fair value of plan assets as at 1 January	2,573	2,434
Return on plan assets	34	49
Payments made	150	150
Payments received from plan assets	-89	-89
Recognised actuarial losses (-)/gains (+)	28	29
<b>Fair value of plan assets as at 31 December</b>	<b>2,696</b>	<b>2,573</b>
Provisions as at 31 December		
Present value of the pension benefit obligation (DBO)	3,260	3,035
Fair value of plan assets	-2,696	-2,573
<b>+ Provisions/- surplus plan assets as at 31 December</b>	<b>564</b>	<b>462</b>

It is expected that EUR 150 thousand will be paid into the pension insurance in 2021.

The actuarial gains and losses were recognised in other comprehensive income in the reporting period and are as follows:

	2020 EUR thousand	2019 EUR thousand
Changes in demographic assumptions	0	0
Changes in financial assumptions	138	276
Other changes	28	18
Other changes to plan assets	-28	-29
<b>Total</b>	<b>138</b>	<b>265</b>

For the Frequentis Group, the principal risks relating to pension obligations are the development of life expectancy and the development of inflation, because the pension benefits comprise lifelong pension payments. The risk remaining with the Frequentis Group is that the development of the plan assets may not cover the anticipated minimum return or preserve the value of the capital.

The following sensitivity analysis for the defined benefit obligation (amounts in EUR thousand) shows the effect of changes in the key actuarial assumptions parameters, while the remaining assumptions remained unchanged.

Interest rate	DBO 31 Dec. 2020
0.85%	3,333
1.0%	3,260
1.15%	3,190

Interest rate	DBO 31 Dec. 2019
1.15%	3,100
1.3%	3,035
1.45%	2,973

### Provisions for anniversary bonuses

Provisions for obligations to pay anniversary bonuses relate to long-term employee benefits at Frequentis Comsoft GmbH based on company practice. Employees are granted a one-off bonus of between EUR 1 thousand and EUR 3 thousand for a certain length of service.

Obligations for anniversary bonuses were measured by applying an interest rate of 1.0% (2019: 1.3%) and an average term of 7.4 years (2019: 7.7 years).

	2020 EUR thousand	2019 EUR thousand
<b>Present value of the defined benefit anniversary bonus obligations (DBO) as at 1 January = provisions as at 1 January</b>	<b>343</b>	<b>301</b>
Current service cost (CSC)	38	34
Interest cost (IC)	4	6
Actual payments made	-18	-17
Recognised actuarial loss (+)/gain(-)	2	19
<b>Present value of the defined benefit anniversary bonus obligations (DBO) as at 31 December = provisions as at 31 December</b>	<b>369</b>	<b>343</b>

The main risk relating to anniversary bonus obligations is the development of inflation.

The following sensitivity analysis for anniversary bonus obligations (amounts in EUR thousand) shows the effect of changes in the key actuarial assumptions, while the remaining assumptions remained unchanged.

Interest rate	DBO 31 Dec. 2020
0.85%	373
1.0%	369
1.15%	365

Interest rate	DBO 31 Dec. 2019
1.15%	347
1.3%	343
1.45%	339

## Other non-current provisions

The other non-current provisions comprise:

	As at 31 Dec. 2019	Foreign exchange difference	Interest	Used	Reversed	Added	Reclassified liabilities	As at 31 Dec. 2020
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Provisions for leave based on period of service	84	1	0	0	0	36	-62	59
Provisions for projects	669	0	3	0	0	92	0	764
Other	33	0	0	0	0	28	0	61
	<b>786</b>	<b>1</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>156</b>	<b>-62</b>	<b>884</b>

A long-term holiday provision is recognised for a foreign subsidiary for an additional holiday entitlement which is dependent on length of service. Short-term holiday entitlements are recognised in other liabilities.

The provisions for projects contain project costs for which provisions have to be recognised due to the excess of expected future expenses over revenues. They are not expected to be utilised within the next twelve months.

The interest on the provisions for leave based on period of service is recognised in personnel expenses while the interest for the provisions for projects is recognised in interest expense.

## 32. Contract liabilities from contracts with customers

Contract liabilities from contracts with customers comprise obligations to transfer goods and services to customers, for which consideration has already been received. These primarily relate to advance payments, some of which are secured by prepayment guarantees. In addition, in some cases payments are secured by bank guarantees. No collateral existed, either on the reporting dates or during the year.

The following table shows the structure of contract liabilities from contracts with customers:

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Advances for customer projects	62,490	44,728
Advances offset against contract assets from contracts with customers	-12,249	-14,157
	<b>50,241</b>	<b>30,571</b>
Other contract liabilities	6,546	5,461
Other contract liabilities offset against contract assets from contracts with customers	-2,922	-2,413
	<b>3,624</b>	<b>3,048</b>
Accrued revenue for maintenance contracts	8,828	10,867
Liabilities for outstanding performance obligations for customer orders after final invoicing (current)	142	3,408
Liabilities for outstanding performance obligations for customer orders after final invoicing (non-current)	13	788
<b>Total contract liabilities from contracts with customers</b>	<b>62,848</b>	<b>48,682</b>

Other contract liabilities contain contractual claims to advance payments.

EUR 836 thousand (2019: EUR 3,347 thousand) of the contract liabilities have a term of more than 12 months. Since the contract costs are expected to be incurred within a normal business cycle, all contract costs are classified as current.

### 33. Other liabilities

The other liabilities comprise:

	31 Dec. 2020 EUR thousand	31 Dec. 2019 EUR thousand
Earn-out payment liability	1,238	0
Loans from non-controlling interests	480	530
Other liabilities	4	133
<b>Total non-current financial liabilities</b>	<b>1,722</b>	<b>663</b>
Accrual for holidays not yet taken	2,282	3,483
Liabilities to the Austrian fiscal authorities (excluding income taxes)	1,614	1,931
Accrual for consultancy costs	656	370
Advances received in connection with grants and subsidies	619	466
Accrual for overtime	466	435
Negative fair values of cash flow hedges and MTM valuation	398	2,181
Other liabilities	2,182	2,312
<b>Total, current</b>	<b>8,217</b>	<b>11,178</b>
<b>of which financial liabilities</b>	<b>1,600</b>	<b>3,340</b>
<b>of which non-financial liabilities</b>	<b>6,617</b>	<b>7,838</b>

The current other liabilities mainly comprise liabilities to local social security institutions and liabilities to employees.

## 34. Other current provisions

The other current provisions comprise:

	As at 31 Dec. 2019 EUR thousand	Foreign exchange difference EUR thousand	Utilisation EUR thousand	Reversal EUR thousand	Added EUR thousand	As at 31 Dec. 2019 EUR thousand
Bonuses	7,683	-113	-7,566	-4	7,525	7,525
Provisions for projects	4,150	-211	-3,939	0	2,919	2,919
Litigation costs	0	0	0	0	1,686	1,686
Other	1,706	-6	-1,112	-588	1,449	1,449
	<b>13,539</b>	<b>- 330</b>	<b>-12,617</b>	<b>- 592</b>	<b>13,579</b>	<b>13,579</b>

The provisions for bonuses contain employee bonuses and variable salary components that are not yet due for payment.

The provisions for projects contain project costs for which provisions are recognised due to the excess of estimated future expenses over revenues.

The provisions for litigation costs mainly relate to the lawsuits filed in connection with Commerzialbank Mattersburg (see Note 13. Impairment loss on financial assets).

It is expected that the current provisions will result in actual outflows in the 2021 financial year.

On the basis of the sensitivity analysis, a change in excess costs of +/- 10% would change the provisions for projects by +/- EUR 1,414 thousand.

## Other information

### 35. Consolidated cash flow statement

In the consolidated cash flow statement, cash inflows and outflows for operating, investing, and financing activities are reported separately. The operating cash flow is reported using the indirect method. Non-cash expenses (mainly depreciation and amortisation) and income are therefore added to or deducted from the profit/loss before tax. Taking into consideration changes in net working capital, this gives the cash flow from operating activities. Cash flows from forward exchange contracts are recognised in the cash flow from operating activities.

The increase in the cash flow from operating activities from EUR 17,728 thousand to EUR 54,752 thousand results, inter alia, from the increase of EUR 8,150 thousand in the net cash flow from operations, the change in trade accounts receivable (EUR 15,033 thousand), and the change in contract liabilities (EUR 13,722 thousand).

Investing activities mainly comprise cash inflows from and outflows for intangible assets, property, plant and equipment, and equity instruments, as well as additions of investments in associated and affiliated companies.

Financing activities comprise dividend payments, cash outflows for repayment of loans, payments of principal on lease liabilities, and cash inflows from loans.

The change in financial liabilities, where cash inflows and outflows are presented in the cash flow statement as cash flows from financing activities, is as follows:

	Carrying amount as at 1 Jan. 2020 EUR thousand	Addition to consolidated group EUR thousand	Exchange rate differences EUR thousand	Cash flow EUR thousand	Addition IFRS 16 EUR thousand	Reclassification of maturities EUR thousand	Carrying amount as at 31 Dec. 2020 EUR thousand
Non-current liabilities	6,030	0	-28	434	0	-1,049	5,387
Non-current lease liabilities	32,788	1	-257	0	6,980	-7,701	31,811
Current liabilities	1,609	472	-15	-1,800	0	1,049	1,315
Current lease liabilities	7,289	3	-67	-7,634	0	7,701	7,292
<b>Total liabilities for financing activities</b>	<b>47,716</b>	<b>476</b>	<b>-367</b>	<b>-9,000</b>	<b>6,980</b>	<b>0</b>	<b>45,805</b>

	Carrying amount as at 1 Jan. 2019 EUR thousand	Change in accounting methods (IFRS 16) as at 1 Jan. 2019 EUR thousand	Exchange rate differences EUR thousand	Cash flow EUR thousand	Addition IFRS 16 EUR thousand	Reclassification of maturities EUR thousand	Carrying amount as at 31 Dec. 2019 EUR thousand
Non-current liabilities	9,568	0	23	-2,561	0	-1,000	6,030
Non-current lease liabilities	0	32,608	112	0	8,034	-7,966	32,788
Current liabilities	1,651	0	12	-1,054	0	1,000	1,609
Current lease liabilities	0	6,539	22	-7,238	0	7,966	7,289
<b>Total liabilities for financing activities</b>	<b>11,219</b>	<b>39,147</b>	<b>169</b>	<b>-10,853</b>	<b>8,034</b>	<b>0</b>	<b>47,716</b>



The cash and cash equivalents presented in the cash flow statement correspond to the line item "cash and cash equivalents" in the statement of financial position.

The cash and cash equivalents comprise cash on hand, cheques, and bank deposits that are due on demand, with an original maturity of up to three months.

## 36. Financial instruments

### Overview

The Frequentis Group is exposed to various market risks in respect of its financial assets, liabilities, and forecast transactions. These risks comprise interest rate, exchange rate, credit, and liquidity risks. The Frequentis Group uses derivatives as currency hedging instruments. The risk of fluctuations in exchange rates is therefore limited by purchasing forward exchange contracts in the required foreign currency and the necessary amount, based on forecast future requirements. The principles are set out in treasury guidelines, which have been approved by the management.

The Executive Board of Frequentis AG bears the responsibility for setting up and overseeing risk management for the Frequentis Group. It is also responsible for the development and ongoing monitoring of the risk limitation guidelines.

These guidelines serve to identify and analyse the risks to which the Frequentis Group is exposed, set appropriate risk limits, introduce controls, and constantly monitor the risks and observance of the limits. The risk management guidelines and workflows are regularly reviewed in order to reflect changes in market conditions and changes in the Group's business activities. The Frequentis Group strives to create a constructive and disciplined control environment where all employees are aware of their role and responsibilities.

In accordance with IFRS 9, the Frequentis Group presents all financial assets, financial liabilities, and derivatives in its statement of financial position as assets and liabilities. They are measured at fair value or at amortised cost.

### Liquidity risk

Liquidity risk is the risk that the Frequentis Group might not be able to meet its financial obligations when they are due or might not be able to realise its investments. The aim of risk management in the Frequentis Group is to create sufficient liquidity to ensure that it can settle all obligations when due in both normal and stressed conditions. Furthermore, all measures required to secure this level of liquidity have to be taken, as set out in the liquidity plan. The liquidity risk is shown by the monthly and annual accumulated difference between cash inflows and outflows (dynamic liquidity risk) and the structure of the statement of financial position (structural liquidity risk).

Liquidity planning is used to analyse the dynamic liquidity risk. The monthly liquidity requirements, based on liquidity planning, are compared with the available funding or the available liquid financial assets. The difference is either a shortfall in liquidity, which needs to be funded, or excess liquidity, which may have to be invested. Liquidity planning forms the basis for decisions on strategy and measures to safeguard liquidity. The liquidity plan is reviewed regularly and the corresponding investments are initiated.

The Treasury department operates as an internal financial services centre by making optimum use of potential synergies in the financing of subsidiaries. The overriding aim is to secure (provide) liquidity at the lowest cost. In this way, management of short-term financial investments and loans is ensured on optimum interest terms and with minimum administrative work. The operating cash flow basically creates the necessary liquidity. The external sources of any necessary financing requirements are the capital market and the credit market. To ensure the solvency and financial flexibility of the Frequentis Group at all times, a liquidity reserve is held in the form of cash and cash equivalents and credit lines.

A functioning banking system is of fundamental importance for the Frequentis Group and its customers. The Frequentis Group requires access to debt to pre-finance upfront project services up to settlement of the invoice. Therefore, it continuously monitors, controls, and evaluates its financial and liquidity position in order to limit the associated risks. The Frequentis Group manages liquidity risks through careful planning and management of its liquidity requirements. Suitable measures are defined on the basis of cash flow forecasts and the Group ensures that it has adequate financial reserves to cover operational requirements and monitors credit lines.

The insolvency of Commerzialbank Mattersburg in 2020 resulted in a sharp short-term reduction in liquid funds and time deposits, but it did not place the Frequentis Group in a position where it was unable to meet its financial obligations as due or was unable to undertake investments.

The steps taken by the Group to address possible liquidity shortfalls as a result of the COVID-19 pandemic and their impact on the consolidated financial statements are outlined below.

In the reporting period, Frequentis secured access to COVID-related corporate financing under the Austrian COVID KRR scheme. This comprises a revolving export credit facility in the amount of EUR 21,400 thousand with bills of exchange guaranteed by the Austrian government and refinancing commitments by Österreichische Kontrollbank AG. The government-guaranteed bills of exchange run until 31 March 2022. As at 31 December 2020, the Frequentis Group had not utilised this facility and it assumes that it will probably not be utilised.

The following table shows the contractually agreed (undiscounted) payments of interest and principal for non-derivative financial liabilities. The variable interest payments for financial instruments were derived from the last applicable interest rates prior to 31 December 2020 and 31 December 2019. Foreign currency amounts were translated in each case at the closing rate on the reporting date. It is not expected that the cash flows from the financial liabilities included in the maturity analysis could occur much earlier or that the amounts could differ significantly.

2020 in EUR thousand	Carrying amount	Contractual cash flows			Total
		Less than 1 year	Between 1 and 5 years	More than 5 years	
Liabilities to banks and other financial liabilities	6,222	1,391	4,515	511	6,417
Lease liabilities	39,103	7,751	22,051	10,124	39,926
Trade accounts payable	11,923	11,410	513	0	11,923
Other liabilities	2,924	1,202	1,782	0	2,984
<b>Non-derivative liabilities</b>	<b>60,172</b>	<b>21,754</b>	<b>28,861</b>	<b>10,635</b>	<b>61,250</b>
Financial derivatives	398	42,671	0	0	42,670
<b>Derivative financial liabilities</b>	<b>398</b>	<b>42,671</b>	<b>0</b>	<b>0</b>	<b>42,670</b>
<b>Total</b>	<b>60,570</b>	<b>64,425</b>	<b>28,861</b>	<b>10,635</b>	<b>103,920</b>

2019

in EUR thousand

	Carrying amount	Contractual cash flows			Total
		Less than 1 year	Between 1 and 5 years	More than 5 years	
Liabilities to banks and other financial liabilities	7,109	1,684	4,142	1,511	7,337
Lease liabilities	40,077	7,555	23,169	10,160	40,884
Trade accounts payable	13,650	12,479	1,171	0	13,650
Other liabilities	1,822	1,158	664	0	1,822
<b>Non-derivative liabilities</b>	<b>62,658</b>	<b>22,876</b>	<b>29,146</b>	<b>11,671</b>	<b>63,693</b>
Financial derivatives	2,181	49,715	0	0	49,715
<b>Derivative financial liabilities</b>	<b>2,181</b>	<b>49,715</b>	<b>0</b>	<b>0</b>	<b>49,715</b>
<b>Total</b>	<b>64,839</b>	<b>72,591</b>	<b>29,146</b>	<b>11,671</b>	<b>113,408</b>

## Credit risk

Credit risk is the risk of a financial loss if a customer or the counterparty to a financial instrument does not satisfy its contractual obligations. Credit risks mainly relate to receivables from customers (2020: EUR 59,318 thousand; 2019: EUR 58,550 thousand), contract assets (2020: EUR 38,420 thousand; 2019: EUR 38,354 thousand), other financial assets (2020: EUR 2,750 thousand; 2019: EUR 704 thousand), and cash and cash equivalents (2020: EUR 91,265 thousand; 2019: EUR 66,882 thousand).

The credit risks, their origin, the objectives, guidelines, and workflows for ongoing risk monitoring, and the methods used to measure credit risks were unchanged in the reporting period.

The offer process specifies that the creditworthiness of each new customer must be analysed separately before the Frequentis Group's standard terms of payment and delivery are offered. This includes examining external ratings, where available, annual financial statements, and information from credit agencies.

The measures used in the past to assess creditworthiness did not have to be tightened as a result of the COVID-19 pandemic.

The risk of default by customers is reduced by mandatory credit assessments and measures to secure payment. For information on the determination of any impairments based on the expected credit losses model, see Note 23. Trade accounts receivable.

The estimated loss allowances for cash and cash equivalents were measured on the basis of the expected 12-month credit losses and reflect their maturities. Based on the external ratings of the banks and financial institutions it uses, the Frequentis Group estimates that there is a low default risk in respect of its cash and cash equivalents.

Apart from investments and deposits totalling EUR 12,741 thousand (2019: EUR 45,639 thousand) at one bank, there is no significant concentration or material credit risk in respect of individual banks, customers, contractual partners or individual financial instruments. In response to the insolvency of Commerzialbank Mattersburg, counterparty risk management has been extended by defining core banks. Every core bank must be system-relevant and a bank-specific limit has been set for the entire banking relationship, based on the bank's credit rating.

## Interest rate risk

The Frequentis Group is exposed to interest rate risk resulting from fluctuations in interest rates on the capital market. Accordingly, changes in interest rates may lead to fluctuations in the fair value or future cash flows of financial assets and financial liabilities.

The bank deposits included in cash and cash equivalents amount to EUR 91,265 thousand (31 December 2019: EUR 66,882 thousand) and bear interest at variable rates or are not interest-bearing. A reduction in interest rates would increase negative interest. This is not, however, material as the cash and cash equivalents are divided among several banks. Negative interest totalling EUR 14 thousand was paid in the reporting period. An increase in interest rates from 0% to 1% would increase interest income by EUR 913 thousand (2019: EUR 669 thousand).

Within financial liabilities, non-current liabilities to banks and other non-current financial liabilities bear interest at fixed rates, while some (EUR 266 thousand) of the current liabilities to banks and other current financial liabilities bear variable interest rates. Interest rates for all lease liabilities are fixed.

Since the interest rate risk is insignificant, it is not presented in tabular form.

## Exchange rate risk

The operating business of the companies in the Frequentis Group results in cash inflows and outflows in foreign currencies, which are not always matched by payments of the same amount in the same currency and with the same maturity. Therefore, the companies in the Frequentis Group are exposed to exchange rate risks.

For information on the hedging of exchange rate risks, see the "Financial derivatives" section.

## Relationship between the items in the statement of financial position, categories of financial instruments, carrying amounts, and fair values

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including the categories to which they are allocated. It does not contain any information on the fair value of financial assets and financial liabilities that are not measured at fair value if the carrying amount is a reasonable approximation of the fair value (amounts in EUR thousand).

2020	Measured at fair value			Measured at amortised cost		Total carrying amount
	Hedge accounting	Mandatory recognition at fair value through profit or loss	Equity instruments – at fair value through profit or loss	Financial assets	Other financial liabilities	
<b>Financial assets</b>						
Equity instruments			863			863
Trade accounts receivable				59,318		59,318
Financial derivatives	12	1,293				1,305
Other current and non-current assets				1,673		1,673
Cash and cash equivalents				91,265		91,265
<b>Total</b>	<b>12</b>	<b>1,293</b>	<b>863</b>	<b>152,256</b>		<b>154,424</b>
<b>Financial liabilities</b>						
Liabilities to banks and other financial liabilities					6,222	6,222
Trade accounts payable					11,923	11,923
Lease liabilities					39,103	39,103
Financial derivatives	267	131				398
Other liabilities		1,345			1,579	2,924
<b>Total</b>	<b>267</b>	<b>1,476</b>			<b>58,827</b>	<b>60,570</b>

2019	Measured at fair value			Measured at amortised cost		Total carrying amount
	Hedge accounting	Mandatory recognition at fair value through profit or loss	Equity instruments – at fair value through profit or loss	Financial assets	Other financial liabilities	
<b>Financial assets</b>						
Equity instruments			874			874
Time deposits				17,995		17,995
Trade accounts receivable				58,550		58,550
Financial derivatives	92					92
Other current and non-current assets				801		801
Cash and cash equivalents				66,882		66,882
<b>Total</b>	<b>92</b>		<b>874</b>	<b>144,228</b>		<b>145,194</b>
<b>Financial liabilities</b>						
Liabilities to banks and other financial liabilities					7,109	7,109
Trade accounts payable					13,650	13,650
Lease liabilities					40,077	40,077
Financial derivatives	1,764	417				2,181
Other liabilities					1,822	1,822
<b>Total</b>	<b>1,764</b>	<b>417</b>			<b>62,658</b>	<b>64,839</b>

## Fair value

Trade accounts receivable, contract assets, other receivables, cash and cash equivalents, trade accounts payable, contract liabilities, and other liabilities are measured at their carrying amount, which is a reasonable approximation of the fair value, due to their essentially short remaining term.

For the equity instrument, there is no quoted price available on an active market. Therefore, it is measured using parameters that are unobservable on the market. Measurement is based on the discounted cash flow method or any equity transactions close to the reporting date. The fair value is allocated to level 3 in the fair value hierarchy. There is currently no intention of selling the equity instrument.

The earn-out liability relating to the acquisition of ATRiCS is measured at fair value and allocated to the category at fair value through profit or loss. The fair value is allocated to level 3 in the fair value hierarchy.

Derivative financial assets and liabilities are carried at fair value. Derivatives that have not been designated as a hedging instrument nevertheless serve economically to hedge fluctuations in exchange rates. Their fair values are based on the present value of expected future cash flows, discounted by the interest rate that the Group estimates could be obtained for comparable financial instruments. They are allocated to level 2 in the fair value hierarchy.

The long-term incentive programmes (LTIP), which are classified as an equity-settled share-based payment, were measured at fair value and allocated to level 3 in the fair value hierarchy.

The following hierarchy was used to allocate all financial instruments measured at fair value to a valuation method:

Level	Financial instruments at fair value
Level 2:	
Measurement based on quoted prices for similar assets	Financial derivatives
Level 3:	
Measurement based on models with significant valuation parameters that are unobservable on the market	Equity instruments, earn-out liability

A further financing round for the 6.88% interest in the start-up company Altitude Angel Ltd., Reading, UK, took place in November. Since there were no indications of a material change in the value of the company since the initial investment, this was once again based on the initial valuation. The Frequentis Group decided not to participate in this financing round, in which new investors participated. Consequently, its interest has decreased to 4.56%.

A distinction is made between derivative and non-derivative financial instruments. The derivative financial instruments primarily include hedging instruments to hedge exchange rate fluctuations.

Net gains and losses are as follows (in EUR thousand):

	Financial derivatives	Other financial instruments measured at fair value through profit or loss	Financial instruments measured at fair value through OCI	Financial assets measured at amortised cost	Financial liabilities measured at amortised cost
2020					
Net interest income/expense				94	-615
Valuation	1,625			-30,918	
Impairment loss pursuant to IFRS 9				-72	
Currency gains/losses				-1,524	22
Disposal gains/losses		-5			
<b>Net gains/losses recognised in profit or loss</b>	<b>1,625</b>	<b>-5</b>	<b>0</b>	<b>-32,420</b>	<b>-593</b>
Net gains/losses recognised in other comprehensive income	736				
<b>Net gains/losses</b>	<b>2,361</b>	<b>-5</b>	<b>0</b>	<b>-32,420</b>	<b>-593</b>
2019					
Net interest income/expense				440	-819
Valuation	201	4		-6	
Impairment loss pursuant to IFRS 9				-90	
Currency gains/losses				405	-110
Disposal gains/losses		0			
<b>Net gains/losses recognised in profit or loss</b>	<b>201</b>	<b>4</b>	<b>0</b>	<b>749</b>	<b>-929</b>
Net gains/losses recognised in other comprehensive income	-860				
<b>Net gains/losses</b>	<b>-659</b>	<b>4</b>	<b>0</b>	<b>749</b>	<b>-929</b>

## Financial derivatives

In international business, it is necessary to conclude contracts in foreign currencies. The Frequentis Group's foreign currency risk results mainly from future business transactions, insofar as they are performed in a currency other than the functional currency of the parent company or the respective subsidiary. Foreign currency exchange risks are managed using financial derivatives, unless a natural hedge can be used (e.g. contracts with suppliers in the same foreign currency). The largest foreign currency exposures arise from customer orders in AUD, CAD, CHF, CZK, GBP, HKD, JPY, NOK, PLN, SGD, and USD.

Forward exchange contracts were concluded to hedge the risk of exchange rate fluctuations. Financial derivatives are not used for speculative purposes.

The Frequentis Group aims to manage and monitor the foreign currency risks for future payments under contracts with customers on a rolling basis throughout the entire project period through hedging with forward exchange contracts at the date of order intake (cash flow hedges). The hedging instruments (forwards, swaps) are concluded for a year and extended annually in the amount of the cash flows still expected (extension at historical rates). Payments from the hedged cash flows are expected to occur in the years 2021 to 2025.

Changes in the fair value of forward exchange contracts that are not designated in a hedging relationship are recognised in other operating income or other operating expense.

There were no reductions in forecast underlying transactions due to the COVID-19 pandemic.

The carrying amount of financial derivatives corresponds to their current fair value, whereby the fair value was determined from the current market value based on the closing exchange rate for the foreign currency as at 31 December 2020, verified by corresponding bank confirmations.

The following table shows the development of financial derivatives:

2020	Derivative		Average hedging rate	Cash flow hedge		For MTM valuation		Total
Sale currency	Sale amount	Purchase amount EUR thousand		Foreign currency amount	Fair value EUR thousand	Foreign currency amount	Fair value EUR thousand	Fair value EUR thousand
CZK	3,700	-344	10.76	0	0	3,700	6	6
GBP	-5,377	6,114	0.88	-26	0	-5,351	168	168
HKD	-2,000	222	9.01	0	0	-2,000	14	14
SGD	-4,183	2,628	1.59	0	0	-4,183	66	66
USD	-21,677	18,591	1.17	-1,329	11	20,348	1,040	1,051
		27,211			11		1,294	1,305
AUD	-6,355	3,900	1.63	-397	-7	-5,958	-68	-75
CHF	-627	577	1.09	0	0	-627	-5	-5
GBP	-8,733	9,482	0.92	-7,828	-173	-906	-4	-177
JPY	-7,092	55	128.95	0	0	-7,092	-1	-1
NOK	-3,500	324	10.80	0	0	-3,500	-8	-8
SGD	427	-268	1.59	0	0	427	-7	-7
USD	-1,874	1,390	1.35	-2,071	-88	197	-38	-126
		15,460			-268		-131	-399

2019	Derivative		Average hedging rate	Cash flow hedge		For MTM valuation		Total
	Sale amount	Purchase amount EUR thousand		Foreign currency amount	Fair value EUR thousand	Foreign currency amount	Fair value EUR thousand	Fair value EUR thousand
Sale currency								
JPY	7,092	-55	128.95	0	0	7,092	3	3
SGD	427	-270	1.58	0	0	427	8	8
USD	-2,826	2,557	1.11	0	0	-2,826	81	81
		2,232			0		92	92
AUD	-4,749	2,901	1.64	-3,739	-18	-1,010	-9	-27
CAD	-54	35	1.54	-54	-1	0	0	-1
CHF	-1,413	1,294	1.09	-29	-1	-1,384	-10	-11
GBP	-16,264	18,208	0.89	-9,478	-648	-6,786	-28	-676
JPY	-14,184	110	128.95	0	0	-14,184	-6	-6
PLN	-16,058	3,552	4.52	-9,918	-128	-6,140	-14	-142
SGD	-7,178	4,555	1.58	0	0	-7,178	-112	-112
USD	-20,688	16,828	1.23	-11,169	-968	-9,518	-238	-1,206
		47,483			-1,764		-417	-2,181

For the carrying amount of the cash flow hedge and the carrying amount of the MTM valuation, a positive fair value of EUR 1,305 thousand was recognised in other receivables in 2020 (2019: EUR 92 thousand), while a negative fair value of EUR 399 thousand was recognised in other liabilities (2019: EUR 2,181 thousand). When the hedged item (revenue) is realised, the amount relating to the hedging transaction recognised in other comprehensive income is reclassified to revenues. The amount reclassified to revenues is shown in the development of the cash flow hedge reserve presented in the table below.

In principle, a prospective effectiveness test is performed when a derivative is designated as a hedging instrument. At every reporting date, the effectiveness of the hedge is reviewed and any potential ineffectiveness is determined. Ineffectiveness is measured by comparing the accumulated changes in the fair value of the designated hedging instruments since designation of the hedge and the accumulated changes in the fair value of the hedged item with reference to the hedged risk. A hypothetical derivative is used to determine the accumulated changes in the fair value of the hedged item with reference to the risk of a change in the exchange rate.

Ineffectiveness may arise if there is a significant discrepancy between the credit risk of the trading partner and that of the Frequentis Group. In addition, a reduction in the hedged revenues can result in over-hedging in the short term, resulting in ineffectiveness. There was no ineffectiveness in 2020 or 2019.

The table shows the development of the cash flow hedge reserve:

	2020 EUR thousand	2019 EUR thousand
As at 31 December of the previous year	-675	-30
Result from changes in fair value	256	-829
Deferred taxes on this amount	-64	207
Reclassification to the income statement	480	-31
Deferred taxes on this amount	-120	8
As at 31 December of the financial year	-123	-675

Based on the sensitivity analyses performed, a 10% increase in exchange rates on the reporting date would have increased the fair value of the cash flow hedge by EUR 1,062 thousand and the fair value of the MTM valuation by EUR 2,754 thousand, while a 10% reduction in exchange rates would have reduced the fair value of the cash flow hedge by EUR 1,298 thousand and the fair value of the MTM valuation by EUR 3,365 thousand.



## 37. Leases

### Leases as lessee

The Frequentis Group has concluded leases with some contractual partners, in particular for buildings, machinery, vehicles, and IT equipment.

The leases for buildings are concluded either for a defined period or for an indefinite period with short termination periods for the lessee and lessor. Where the leases are for office premises for small companies, they are classified as short-term leases because termination does not result in any penalties and new premises are readily available. The lease for the office building used as the company's headquarters cannot be terminated until 2026. As at 31 December 2019, it was assumed that the lease would be extended to 2027. This was reviewed as at 31 December 2020 and the period was adjusted to 2028. As a result, the right-of-use asset increased by EUR 3,673 thousand.

In the reporting period, a lease for an indefinite period was concluded for a placement machine. Since this lease cannot be terminated for 72 months, the right-of-use asset was recognised in accordance with this lease term.

The leases for motor vehicles have a term of approximately 3 to 6 years, while IT equipment is generally leased for 5 years. There are neither options to terminate nor to extend the leases, or the exercise of such options is not considered to be virtually certain, so they are not included in the assessment of the right-of-use asset.

The Frequentis Group also leases IT and other equipment. These leases are classified as short-term leases or leases for low-value assets, for which the exemptions are applied. Therefore, they are not included in the consolidated financial statements as either assets or liabilities.

The following table presents details of the right-of-use assets recognised in property, plant and equipment:

2020	Right-of-use assets for land and buildings EUR thousand	Right-of-use assets for machinery EUR thousand	Right-of-use assets for other plant, factory and office equipment EUR thousand	Total EUR thousand
<b>Acquisition cost</b>				
As at 1 January 2020	44,777	0	2,058	46,835
Foreign currency translation	-374	0	-10	- 384
Changes in reporting entities	0	0	9	9
Addition	5,582	587	811	6,980
Disposal	-622	0	-161	- 783
As at 31 December 2020	49,363	587	2,707	52,657
<b>Accumulated depreciation</b>				
As at 1 January 2020	-6,535	0	-502	-7,037
Foreign currency translation	96	0	2	98
Changes in reporting entities	0	0	-4	-4
Addition	-6,925	-19	-746	-7,690
Disposal	589	0	138	727
As at 31 December 2020	-12,775	-19	-1,112	-13,906
<b>Carrying amount</b>				
As at 31 December 2020	36,588	568	1,595	38,751

2019	Right-of-use assets for land and buildings EUR thousand	Right-of-use assets for other plant, factory and office equipment EUR thousand	Total EUR thousand
<b>Acquisition cost</b>			
As at 1 January 2019	38,299	808	39,107
Addition	6,573	1,249	7,822
Disposal	-226	0	- 226
Foreign currency translation	131	1	132
As at 31 December 2019	44,777	2,058	46,835
<b>Accumulated depreciation</b>			
As at 1 January 2019	0	0	0
Addition	-6,591	-502	-7,093
Disposal	56	0	56
As at 31 December 2019	-6,535	- 502	-7,037
<b>Carrying amount</b>			
As at 31 December 2019	38,242	1,556	39,798

In addition to new leases, the additions to right-of-use assets include adjustments resulting from contract modifications, contract extensions, reassessment of contract terms, and index adjustments.

The lease liabilities changed from EUR 40,077 thousand (comprising EUR 32,788 thousand non-current and EUR 7,289 thousand current) as at 1 January 2020 to EUR 39,103 thousand (comprising EUR 31,811 thousand non-current and EUR 7,292 thousand current) as at 31 December 2020.

The following expenses for leases are recognised in the income statement:

	2020 EUR thousand	2019 EUR thousand
Depreciation of right-of-use assets	7,690	7,093
Interest expense for lease obligations	242	438
Lease payments for short-term leases	527	912
Lease payments for low-value assets	25	18
<b>Total</b>	<b>8,484</b>	<b>8,461</b>

Amount recognised in the cash flow statement in connection with leases:

	2020 EUR thousand	2019 EUR thousand
Payments of principal on lease liabilities	7,633	7,238
Interest paid on lease liabilities	242	438
Lease payments for short-term leases and low-value assets	552	930
	<b>8,427</b>	<b>8,606</b>

Interest paid on leases and lease payments for short-term leases and low-value assets are presented in the net cash flow from operating activities, while the payments of principal on lease liabilities are reported in the net cash flow from financing activities.

During 2020, the Frequentis Group concluded several leases that start in 2021. However, these are insignificant leases for vehicles and the rental of buildings.

### Leases as lessor

Revenues from leases where the Frequentis Group is the lessor amounted to EUR 42 thousand in the reporting period (2019: EUR 73 thousand). These lease revenues will be EUR 44 million in 2021 and EUR 33 thousand in the following two years. These leases are classified as operating leases.

## 38. Information on business relations with related parties

### Parent company

Frequentis Group Holding GmbH holds a majority stake of around 60% of the shares in Frequentis AG.

In the reporting period, revenues from transactions with Frequentis Group Holding GmbH were as follows:

	2020 EUR thousand	2019 EUR thousand
Goods and services supplied and other income	31	90
Goods and services received and other expenses	549	507
Receivables outstanding as at 31 December	5	15
Liabilities outstanding as at 31 December	0	3

All transactions are undertaken on an arm's length basis.

### Associated companies

The Frequentis Group maintains relationships with associated companies within the scope of ordinary business activities, and buys and sells services at arm's length.

In the reporting period, revenues from transactions with the associated companies were as follows:

	2020 EUR thousand	2019 EUR thousand
Goods and services supplied and other income	167	122
Goods and services received and other expenses	2,308	2,077
Receivables outstanding as at 31 December	12	8
Liabilities outstanding as at 31 December	71	180

### Related companies

A number of key management personnel or related parties have functions in other entities that result in them having control or significant influence over the financial and operating policies of those entities.

In the reporting period, the following transactions were undertaken with companies and persons classified as related parties:

	2020 EUR thousand	2019 EUR thousand
Expenses for consulting services	303	315
Expenses for project support services	223	335
Expenses for software development and engineering	613	650
Rental payments (principal and interest) and operating costs	3,776	3,773
Revenues	162	211
Receivables as at December 31	0	62
Payables as at December 31	31	187

The rental payments mainly comprise rent for the office premises at the company's headquarters in Vienna.

Austrian Research Promotion Agency (Österreichische Forschungsförderungsgesellschaft/FFG): Mr. Johannes Bardach is a member of the Supervisory Board of FFG. FFG's core business is granting subsidies and loans for research purposes. To ensure the necessary strategic focus of the Supervisory Board, in accordance with the FFG law, representatives of companies that receive funding from FFG are nominated as members of the Supervisory Board.

In the reporting period, advance payments for future research revenues in the amount of EUR 122 thousand (2019: EUR 23 thousand) were disbursed by FFG. Funding received from FFG in the reporting period totalled EUR 893 thousand (2019: EUR 573 thousand).

Since the Supervisory Board of FFG is not involved in the awarding of grants, no conflicts of interest arise from this.

## Related persons

### Executive Board

In the reporting period, the Executive Board comprised:

- Norbert Haslacher, Chairman
- Sylvia Bardach
- Hermann Mattanovich

The total remuneration paid to the Executive Board (excluding payroll-related costs) was EUR 1,271 thousand in the reporting period (2019: EUR 2,074 thousand). The remuneration of the Executive Board comprises fixed components (annual base salary, premiums for pension reinsurance, benefits in kind) and variable components (including the LTIP). The variable components are performance-related and are based on the achievement of short-term financial targets for the company. In 2019, a one-off bonus was paid for the successful listing of Frequentis AG on the stock market.

In 2019 and 2020, Frequentis AG agreed long-term incentive programmes (LTIP) with the Chairman of the Executive Board, Mr. Norbert Haslacher. These do not require any personal investment in Frequentis AG shares. From the grant date, a maximum of one third of the shares acquired under the LTIP 2019 and 2020 may be sold in any financial year. In any case, the beneficiary may only sell the number of shares awarded under the LTIP if, at all times, he holds at least 7,000 of the shares awarded under a long-term incentive plan ("minimum shareholding"). In the reporting period, EUR 184 thousand (2019: EUR 67 thousand), including payroll-related costs, was recognised in personnel expenses in the consolidated statement of comprehensive income for the LTIP 2019 and the LTIP 2020.

The members of the Executive Board have been granted pension benefits. In addition to the post-retirement payments, these include pension benefits for surviving dependants after the death of the beneficiary. The post-retirement benefits are generally paid when the beneficiary reaches a specific age, provided that the employment contract has ended at this date. Expenses of EUR 298 thousand were incurred in the reporting period (2019: EUR 333 thousand) for contributions to pension insurance and the recognition of pension provisions for members of the Executive Board. This amount includes service cost of EUR 109 thousand (2019: EUR 131 thousand), interest cost of EUR 39 thousand (2019: EUR 52 thousand), and pension insurance expense of EUR 150 thousand (2019: EUR 150 thousand).

In the event of termination of employment, severance payments are due in accordance with the legal regulations in Austria. Additions to the corresponding provisions for severance payments amounted to EUR 33 thousand in 2020 (2019: EUR 25 thousand).

No advances or loans were granted to members of the Executive Board.

### Supervisory Board

The Supervisory Board of Frequentis AG comprises five representatives of the shareholders and three representatives of the workforce.

The remuneration of the Supervisory Board amounted to EUR 145 thousand in the reporting period (2019: EUR 103 thousand).

An office and support services are provided free of charge for the Chairman of the Supervisory Board, Mr. Johannes Bardach, for the performance of his function as Chairman of the Supervisory Board.

No advances or loans were granted to members of the Supervisory Board of Frequentis AG.

## 39. Significant events after the reporting date

On 23 February 2021, Frequentis AG signed an agreement to acquire the ATM voice communications and arrival management product business from the US company L3Harris Technologies for a purchase price of USD 20.1 million (about EUR 16.58 million) subject to customary net debt and working capital-based purchase price adjustments at closing. It is expected that the transaction will be closed during 2021. The transaction, which is subject to competition clearance and regulatory approvals, comprises the acquisition of

- the ATM voice communication systems product line of L3Harris, USA
- the Harris ATC Solutions business unit of Harris Canada Systems Inc., Gatineau, Canada
- 100% of the shares in Harris C4i Pty. Ltd., Melbourne, Australia, and
- 100% of the shares in Harris Orthogon GmbH, Bremen, Germany.

In addition to these acquisitions, L3Harris and the Frequentis Group have entered into cooperation agreements. As an L3Harris technology partner, Frequentis will provide voice communication systems for use in L3Harris' large-scale solutions and service business.

This transaction marks a significant step in the Frequentis Group's growth strategy and will complement its portfolio for the civil and military ATM sector. Moreover, Frequentis will add the leading arrival and departure management solutions from L3Harris Orthogon to its offering.

Since closing is only possible when the competition clearance and regulatory approvals have been obtained, no figures as at the acquisition date are yet available. The company will be fully consolidated after closing of the transaction.

## 40. Additional information

The Frequentis Group had an average of 1,907 employees in 2020 (2019: 1,849 employees).

### Audit fees

In the reporting period, audit expenses of EUR 122 thousand (2019: EUR 120 thousand) were incurred for the audit of the consolidated financial statements and the annual financial statements of Frequentis AG, expenses of EUR 49 thousand (2019: EUR 70 thousand) were incurred for other consulting services, and expenses of EUR 16 thousand (2019: EUR 18 thousand) were incurred for other services.

## 41. Capital management

In addition to a sustained increase in the value of the company, financial management of the Frequentis Group aims to maintain an appropriate capital structure. The principal performance indicators used to manage the capital structure are the EBIT margin, the equity ratio, and net debt. Since the Frequentis Group currently has a net cash position, it refers to net cash rather than net debt. The net cash position comprises cash and cash equivalents plus time deposits less liabilities to banks and other financial liabilities. The key performance indicators developed as follows in the reporting period:

	2020	2019
EBIT margin (based on revenues)	9.0%	5.7%
Equity ratio	40.7%	42.7%
Net cash in EUR thousand	85,043	77,768

The Frequentis Group calculates EBIT as follows:

	2020 EUR thousand	2019 EUR thousand
Profit/loss before tax	-4,422	16,984
Financial income	-94	-440
Financial expenses	615	819
Impairment loss on financial assets	30,923	2
Earnings from investments accounted for at equity	-214	-148
<b>Total</b>	<b>26,808</b>	<b>17,217</b>

The Frequentis Group meets the minimum capital requirements defined by law and the articles of association. The capital managed comprises the shareholders' equity reported in the consolidated statement of financial position.

## 42. Risk management

The Frequentis Group has an internal control system (ICS) for its accounting process. The reliability of the internal control system is monitored by the internal audit department. The Frequentis Group has initiated several processes based on best practice standards to ensure that its risk management is effective. The fundamental aim is to identify opportunities and risks as soon as possible and take suitable measures to maintain profitability and secure the continued existence of the Group. Risk awareness, the vigilance of all staff, and early identification of business risks are well developed and are incorporated in a solid risk management policy.

The risks are outlined in more detail in the opportunity and risk management section of the Group Management Report.

Vienna, 15 March 2021



# Auditor's Report

## Report on the consolidated financial statements

### Audit Opinion

We have audited the consolidated financial statements of Frequentis AG, Vienna, and of its subsidiaries (the Group) comprising the consolidated balance sheet as of December 31, 2020, the consolidated income statement, the consolidated statement of changes in equity and the consolidated statement of cash flows for the fiscal year then ended and the notes to the consolidated financial statements.

Based on our audit the accompanying consolidated financial statements were prepared in accordance with the legal regulations and present fairly, in all material respects, the assets and the financial position of the Group as of December 31, 2020, and its financial performance for the year then ended in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and with requirements stated in par. 245a UGB.

### Basis for opinion

We conducted our audit in accordance with the regulation (EU) no. 537/2014 (in the following "EU regulation") and in accordance with Austrian Standards on Auditing. Those standards require that we comply with International Standards on Auditing (ISAs). Our responsibilities under those regulations and standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are independent of the Company in accordance with the Austrian General Accepted Accounting Principles and professional requirements and in accordance with any other regulations or requirements agreed and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained until the date of this auditor's report is sufficient and appropriate to provide a basis for our opinion by this date.

### Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

- Project Accounting

### Project Accounting

#### Situation and reference to further information:

A major part of the presented revenues is derived from project related business, which in the main comprises delivery and maintenance contracts. The large number of projects are different in order volume, technical complexity and duration, with a few contracts having terms of several years. In general, revenue of maintenance contracts is realised over the service period. When the requirements for realisation over time are met, revenues from delivery projects are recorded in accordance with IFRS 15 based on the stage of completion applying the cost-to-cost method.

Contractual claims arising from these projects are reported as contract assets from contracts with customers and outstanding obligations as contract liabilities from contracts with customers. In case that a project loss is expected from a further execution of a project, including maintenance contracts, that loss will be immediately recognised in the income statement.

For several ongoing or completed projects there may be different views regarding the type or scope of the performance and the contractual obligations. Such differences can have an impact on the project costs and results. The determination of the stage of completion, the estimate of costs to complete as well as the measurement of project provisions require a significant number of assumptions and forward-looking estimates. Additional estimates may arise due to COVID-19 constraints, in particular travel restrictions, on projects acceptances and therefore project costs. Due to the significant volume of the project business, the risk for the consolidated statements consist of a material misstatement of the project revenue, the related project costs as well as the corresponding balance sheet items.

Information on the accounting of the project business can be found in chapter 2 of the notes under the accounting and valuation policy "Impact of the COVID-19 pandemic", "IFRS 15 Revenue from Contracts with Customers" as well as "Significant estimates and exercise of discretion". Further information can be found in chapter 4 "Revenues" within the notes to the consolidated income statement and in chapter 24 "Contract assets from contracts with customers" and chapter 32 "Contract liabilities from contracts with customers".

#### **Audit response:**

In the course of our audit, we have gained an understanding of the processes and internal controls relevant to the accounting of revenues from customer contracts and we tested the effectiveness of certain internal controls. These controls mainly address the review and approval of project calculation for new contracts, the recognition of purchased services on the corresponding projects as well as the continuing monitoring and assessment for project calculations until the completion of the project.

Based on the results of the control tests, we have performed a more indepth analysis for a sample of projects under special assessment of the discretionary decisions made. We have selected our samples considering various risk-oriented parameters, e.g. size, margin, start and duration of the project. In addition, we considered the fact of significant adjustments to the assessment compared to previous year for our determination of the sample. The audit procedures performed on the selected sample included, in particular, the review of the underlying contracts and agreements, discussions with the commercial and operating project managers concerning their estimates and assumptions, including the impact of COVID-19. We performed an analysis of current project data as well as the reconciliation of assumptions and estimates with contracts and further documents. In addition, we have examined the recording of costs on the projects and the determination of the stage of completion. Finally, we have assessed whether the presentation of the project business in the consolidated financial statement as well as the disclosures in the notes are in accordance with the requirements of IFRS 15.

#### **Other information**

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements, the Group's management report and the auditor's report thereon.

We received the non-financial report, the corporate governance report, and the compensation report until the date of this audit opinion; the rest of the annual report is estimated to be provided to us after the date of the auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, to consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### **Responsibilities of management and the supervisory board/audit committee for the consolidated financial statements**

Management is responsible for the preparation of the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU and with requirements stated in par. 245a UGB.), for them to present a true and fair view of the assets, the financial position and the financial performance of the Group and for such internal controls as management determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the EU regulation and in accordance with Austrian Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the EU regulation and in accordance with Austrian Standards on Auditing, which require the application of ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit.

We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

### Comments on the management report for the Group

Pursuant to Austrian Generally Accepted Accounting Principles, the Group management report is to be audited as to whether it is consistent with the consolidated financial statements and as to whether it was prepared in accordance with the applicable legal regulations.

Management is responsible for the preparation of the Group's management report in accordance with Austrian Generally Accepted Accounting Principles.

We conducted our audit in accordance with Austrian Standards on Auditing for the audit of the Group's management report.

## Opinion

In our opinion, the management report for the group was prepared in accordance with the valid legal requirements and is consistent with the consolidated financial statements.

## Statement

Based on the findings during the audit of the consolidated financial statements and due to the thus obtained understanding concerning the Group and its circumstances no material misstatements in the Group's management report came to our attention.

## Additional information in accordance with article 10 of the EU regulation

We were elected as auditor by the ordinary general meeting at May 14, 2020. We were appointed by the Supervisory Board on September 20, 2020. We are auditors without cease since 2018.

We confirm that the audit opinion in the section "Report on the consolidated financial statements" is consistent with the additional report to the audit committee referred to in article 11 of the EU regulation.

We declare that no prohibited non-audit services (article 5 par. 1 of the EU regulation) were provided by us and that we remained independent of the audited company in conducting the audit.

We provided no services, in addition to the statutory audit, to the audited company and its controlled undertakings, which have not been disclosed in the Group's management report or in the consolidated financial statements.

## Responsible Austrian certified public accountant

The engagement partner on the audit resulting in this independent auditor's report is Mr. Mag. Gerhard Posautz, Certified Public Accountant.

Vienna, 16 March 2021



BDO Austria GmbH

Wirtschaftsprüfungs- und Steuerberatungsgesellschaft

Mag. Gerhard Posautz  
Auditor

Mag. Gerhard Fremgen  
Auditor

## Statement by all legal representatives

We confirm to the best of our knowledge that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the group as required by the applicable accounting standards and that the group management report gives a true and fair view of the development and performance of the business and the position of the group, together with a description of the principal risks and uncertainties the group faces.

Vienna, 15 March 2021



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Norbert Haslacher  
Chairman of the Executive Board



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Sylvia Bardach



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Hermann Mattanovich

# Glossary

This glossary explains technical terms and abbreviations relating to Frequentis' business as well as financial and commercial terminology.

## Glossary of technical terms relating to Frequentis' business

Term	Explanation
3GPP	3rd Generation Partnership Project Worldwide cooperation of standards organisations which develop protocols for mobile telecommunications
5G	5th Generation technology standard for broadband cellular networks
AMHS; MHS	(Aeronautical) Message Handling Services MHS: System for processing and transmitting aeronautical messages, based on an ICAO standard for air-ground-ground communication; e.g. for the transmission of NOTAM (notice to airmen), flight plans, or meteorological data
ATC	Air Traffic Control
ATM	Air Traffic Management <ul style="list-style-type: none"> <li>Air traffic management (ATM) ensures the safe and efficient movement of aircraft during all phases of their operation</li> <li>Name of a Frequentis business segment that comprises the Air Traffic Management Civil, Aeronautical Information Management, and Defence business domains</li> </ul>
BCHÖ	B&C Holding Österreich GmbH
CANSO	Civil Air Navigation Services Organisation International organisation which represents the interests of air navigation service providers
CERT	Computer Emergency Response Team A group of IT security experts that issues warnings about information security vulnerabilities and offers recommendations for mitigating the associated risks, also in the event of specific IT security incidents
CISO	Chief Information Security Office Senior-level executive responsible for information security
EAD	European AIS (Aeronautical Information Services) Database The European AIS Database has been successfully operating since 2003. The EAD system was developed by Frequentis and is operated by GroupEAD. It ensures standardisation and harmonisation of the relevant aviation data and therefore greater safety, while reducing maintenance costs. It therefore represents an initial milestone for the concept of a "Single European Sky"
EASA	European Union Aviation Safety Agency
ESD	Electrostatic discharge A sudden flow of electricity between two electrically charged objects
ETSI	European Telecommunications Standards Institute An independent, not-for-profit, standardisation organisation in the field of information and communications, which supports the development and testing of global technical standards for systems, applications, and services

EUROCAE	European Organisation for Civil Aviation Equipment EUROCAE is a non-profit organisation that deals with the standardisation of electronics for aviation
FESE	Federation of European Security Exchanges
FIRST	Forum of Incident Response and Security Teams Global association of CERTs and IT security professionals
GMDSS	Global Maritime Distress and Safety System Global system for distress and safety radio communication; a set of technical equipment, service centres, and rules to support global rescue efforts in cases of distress at sea and for the protection of shipping
GSM-R	GSM for Railways A mobile radio system which is based on the dominant global mobile radio standard GSM, which has been specifically adapted for use in the railway sector
IBB	Installed Base Business Follow-up business to installed systems and solutions
ICAO	International Civil Aviation Organization ICAO is a UN specialised agency based in Montreal, Canada. Its aim is to foster sustained growth in the global civil aviation system
IoT	Internet of Things
IP networks	IP stands for "Internet Protocol" IP networks work with the internet protocol and packet switching; They consist of subnetworks that use routers or switches to connect to the actual backbone network, which constitutes the communication infrastructure
ISSS	International System Safety Society A non-profit organisation that supports safety professionals worldwide,; the focus is on the application of systems engineering and systems management in hazard, safety, and risk analysis
LDACS	L-band Digital Aeronautical Communication System Wideband terrestrial system with line-of-sight coverage, for future aeronautical communications
LTE	Long Term Evolution A broadband standard for mobile communications
MCPTT	Mission Critical Push-To-Talk Push-to-talk functionality that meets the requirements of secure, mission-critical voice communication, based on a arbitrated method where two or more users can communicate with each other
PEFC	Programme for the Endorsement of Forest Certification Schemes Seal for sustainable forest management for the recognition of forest certification programmes
PST	Public Safety & Transport Name of the Frequentis business segment comprising the Public Safety, Public Transport (i.e. railways) and Maritime business domains
SaaS	Software as a Service A software licensing and delivery model – considered to be part of cloud computing – in which software is licensed on a subscription basis and is hosted centrally
SESAR	Single European Sky ATM Research A pan-European initiative for the unification, harmonisation, and synchronisation of services within the framework of European air traffic management, which was initiated by the European Commission and the European Organisation for the Safety of Air Navigation, EUROCONTROL



SIRT	Security Incident Response Team Coordinating entity for the assessment of information security vulnerabilities, risk mitigation, and information security incident management
TETRA	TErrestrial Trunked Radio Open standard for digital trunked radio which enables the setup of universal networks
UTM	Unmanned aircraft system Traffic Management An air traffic management system for remotely and autonomously controlled operations of unmanned aerial systems

## Glossary of financial and commercial terms

Term	Explanation
AktG	Aktiengesetz Austrian Companies Act
ArbVG	Arbeitsverfassungsgesetz Austrian Labour Relations Act
C rules	Principles of the Austrian Code of Corporate Governance ("comply or explain"), which have to be followed; any deviation has to be explained and the reasons stated to be in compliance with the Code
CAGR	Compound Annual Growth Rate
CAPEX	Capital expenditure Funds that are used by a company for the purchase, improvement, or maintenance of long-term assets
CGU	Cash Generating Unit
CoC	Code of Conduct
CPI	Corruption Perception Index
CSR	Corporate Social Responsibility
EBIT	Earnings before interest and taxes
EBIT margin	EBIT as a percentage of operating performance
EBITDA	Earnings Before Interest, Taxes, Depreciation, Amortisation, and impairment losses
ECL	Expected credit losses
Equity ratio	Equity/total equity and liabilities
ERP	Enterprise Resource Planning Software solution
FFG	Österreichische Forschungsförderungsgesellschaft mbH Austrian Research Promotion Agency; national funding agency for industrial research and development in Austria
FN	Commercial register number, unique identifier of a legal entity in Austria
FQT	Ticker symbol of the shares of Frequentis AG
FVOCI	Fair Value through Other Comprehensive Income Classification and measurement category for financial assets; changes in the fair value are recognised in other comprehensive income (i.e., outside of profit and loss)

FVTPL	Fair Value Through Profit and Loss Classification and measurement category for financial assets; changes in the fair value are recognised in profit or loss
GRI	Global Reporting Initiative An international independent standards organisation that helps communicate impacts on issues such as climate change, human rights and corruption; GRI's framework for sustainability reporting helps companies identify, gather, and report this information in a clear and comparable manner
IAS	International Accounting Standards
ICS	Internal control system
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
IoT	Internet of Things
IPO	Initial Public Offering
ISIN	International Securities Identification Number, Frequentis' ISIN: ATFREQUENT09
KRR	Kontrollbank-Refinanzierungsrahmen Programme to support the export industry by mitigating the economic impact of COVID-19
L rules	Legal requirements of the Austrian Code of Corporate Governance
LTIP	Long Term Incentive Plan/Programme
M&A	Mergers & Acquisitions
MTM	Mark-To-Market Accounting method where the value of an asset or liability is based on the current market price
NaDiVeG	Nachhaltigkeits- und Diversitätsverbesserungsgesetz Austrian Sustainability and Diversity Improvement Act
ÖCGK	Österreichischer Corporate Governance Kodex Austrian Code of Corporate Governance
OCI	Other comprehensive income
R rules	Recommendations of the Austrian Code of Corporate Governance
SDGs	Sustainable Development Goals United Nations (UN) objectives for sustainable economic, social, and environmental development
Shareholders' equity	Funds made available to the company by its owners through cash or contributions in kind, plus retained earnings
STEM	Abbreviation for studies and professions in the fields of science, technology, engineering, mathematics
TSR	Total Shareholder Return
UGB	Austrian Commercial Code
WACC	Weighted Average Cost of Capital
XETRA	A share trading platform operated by the Frankfurt Stock Exchange

## Financial Calendar 2021

07.04.2021	Annual financial statements 2020
10.05.2021	Record date for General Meeting
20.05.2021	Annual General Meeting, Vienna
26.05.2021	Ex-dividend day
27.05.2021	Record date for dividend
28.05.2021	Dividend payment day
17.08.2021	Half-year financial report 2021

<http://www.frequentis.com/ir> > Financial Calendar

### Notes / Disclaimer

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