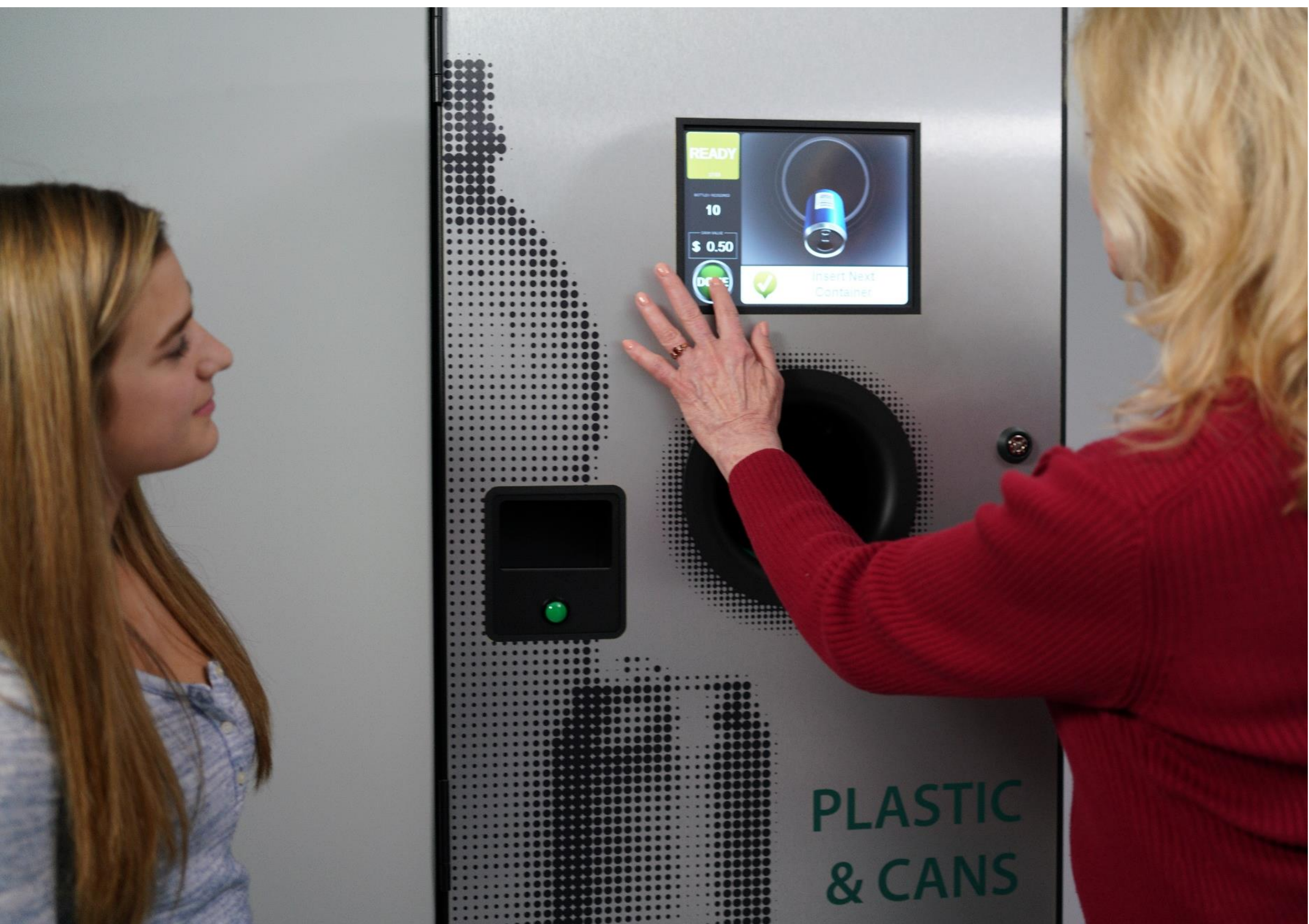
Envipco Holding NV | Annual Report 2019



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Chief Executive Officer Statement

The world is turning from accelerated awareness of the environmental issues of single-use material waste to a call for action to halt the crisis, "The climate emergency is a race we are losing, but it is a race we can win … we have had enough talk … You don't negotiate with nature. This is a climate action summit" United Nations Secretary-General António Guterres[1]. This call for action is spreading from supranational movements like Extinction Rebellion[2] to youth protests championed by new emerging voices and leadership such as Greta Thurnberg[3]. These voices effect political priorities and drive, in the end, to try and find real world solutions. This is where Envipco comes in and we get to work.

With this continued focus on reducing litter and driving recycling rates especially for plastic materials, for example EU targets[4], implementing a deposit return scheme (DRS) that uses reverse vending machines (RVMs) within a circular system is seen as the only really scalable solution. The volumes are staggering, globally we consume nearly 1 Trillion containers per year [5] that could be recycled through a DRS. To handle such volume the current global systems needs to scale 3-4 times from where they are now, Envipco is determined to help get these systems working well and win a solid share of this market.

It is my pleasure to join the Company at this critical and exciting time. The business had a transitional year last year and, whilst timing changed in several new DRS markets, we continue to strengthen our ability to capitalise on significant potential growth particularly in Europe over the next 5-8 years. Envipco helped invent and shape the RVM concept back in the 70s, and I have already seen in the business the commitment and depth of knowledge about the product and systems that delights our customers. Highlights of 2019 included: implementation of extensive pilot projects in Scotland, official opening of our Greek facility, continued growth and development in our core US market, and large-scale roll-out of our innovative Quantum product in Sweden. Envipco has demonstrated the ability to deliver success, we need to work with all our stakeholders to deliver on the opportunity ahead.

In joining a solid business like Envipco, you do so to build on the strong foundation made possible by the previous efforts and support of customers, suppliers, employees, partners, leadership, the Board, and supportive shareholders. Thank you for your efforts over the years and the continued support to the business. I look forward to working with each of you as we embark on the next stage of the journey.

Simon Bolton
CEO

Post-note: As this report is released the world finds itself in the grips of an unprecedented global pandemic due to Coronavirus/COVID-19. As a responsible business we are working with government authorities and implementing guidelines to keep customers supported and employees safe. We have a more detailed update in the body of the report, as a Company helped by high recurring revenues, options to work remotely, and an excellent team, we are mitigating the effects of this crisis to the very best of our abilities.

Note: Mr. Simon Bolton will be proposed as an executive board member at the Company's next AGM.

Ref:
1 – Pre-summit press release, UNs Climate Action Summit, New York, September 2019
2 – https://rebellion.global/
3 – https://www.businessinsider.com/greta-thunberg-bio-climate-change-activist-2019
4 – https://ec.europa.eu/environment/index_en.htm
5 – https://www.nationalgeographic.com/environment

General

The Board of Directors of the Company hereby presents its director’s report for the financial year ended on 31 December 2019.

Envipco Holding N.V. is a public limited liability Company incorporated in accordance with the laws of The Netherlands. Envipco Holding N.V. and its subsidiaries listed on page 31 consist of the Group (hereafter the Group).

Mission Statement

Our mission is to provide the most cost-effective and efficient technology solutions for recycling used drinks packaging in order to dramatically increase the reuse of raw materials and conserve our limited natural resources.

Our purpose is to provide global deposit return solutions that are convenient and scalable for every unique application.

Our vision is for a cleaner, more sustainable environment for the next generation.

The Group’s principal activity is the design, development and operation of automated solutions to recover used beverage containers which includes:

- The design, development, manufacture and sale or lease of Reverse Vending Machines (RVM) as the foundation of recycling systems for the collection and processing of used beverage containers.
- The provision of technical support, RVM maintenance and accounting services to the retail stores, bottlers and distributors for containers redeemed through these machines.
- The provision of deposit, handling fees, scrap reconciliations, commodity brokerage, clearing house functions and accounting.
- Provision of materials handling services, primarily in the Northeastern part of the United States of America (USA), for containers that are subject to deposits mandated by law.

Financial Highlights

in EUR millions	2019	2018
Continuing Operations		
Revenues	36.25	35.38
Gross profit	13.55	13.94
Gross profit %	37.4%	39.4%
Operating profit/(loss)	(2.58)	2.19
Net profit/(loss) after taxes after minority	(1.88)	1.85
EBITDA (earnings before interest, taxes, depreciation and amortisation)	1.61	5.48
Earnings/(loss) per share in €	(0.46)	0.47
Equity		
Shareholders' equity	24.35	25.97
Liquidity ratio (current assets/current liabilities)	1.73	2.11
Total Assets	**39.95**	**40.00**

The table above including the financial highlights contain the main Key Performance Indicators (KPI's) consisting of revenues, gross profit, net profit, and EBITDA.

Results

Revenues for the full year 2019 increased 2.5% to €36.25m from €35.38m in 2018. The North American business growth was 1.0% for the year 2019. On a constant currency basis, the North American business revenue was down 4.1% for the year ended 2019 compared to 2018. The reduced North American business revenue in constant currency is attributable to lower RVM machine sales and lower commodity prices on our container throughput business. The European revenue growth was 17.6% for the year ended 2019 compared to 2018. The European growth for the year was attributable to strong growth in Sweden.

Gross profit for the full year 2019 decreased to €13.55m from €13.94m for 2018. After adjustment for the favourable USD to EUR currency rate the gross profit declined €1.07m or 7.3% for 2019 compared to 2018.

Gross profit margin was 37.4% for the year 2019 compared to 39.4% in 2018. The gross margin was negatively impacted by lower manufacturing overhead cost absorption in North America and by the mix of RVM machine sales in Europe where Quantum represented a greater percentage of sales.

The operating profit/(loss) for the year 2019 was a loss of (€2.58m) compared to a profit of €2.19m for 2018.

The North American operating profit was €2.89m for 2019 compared to €5.22m for 2018. After adjusting for the Q4 2019 financial charge of €1.0m for the separation agreement with the former CEO and adjusting for the favourable one-time legal settlement of €0.62m realised in 2018, the North American operating profit declined by €0.71m. This decline was attributable to lower RVM machine sales and €0.30m of operating expense increases.

The European business operating profit/(loss) was a loss of (€2.79m) for the year 2019 compared to a loss of (€1.03m) in 2018. The European new market development expenses increased by €0.93m to €1.40m for 2019 from €0.48m in 2018. These costs principally relate to our UK/Scotland organisation in anticipation of the new Scotland DRS legislation and establishment of our Greece European showroom and assembly facility. The operating profit of the European business for 2019 was also negatively impacted by €0.47m of increased R&D expense in support of new DRS opportunities and some reduction in gross margin due to the mix of RVM machine sales.

The Holding Company expenses increased to €2.68m for the year ended 2019 compared to €2.00m for 2018. The 2019 increase is principally attributed to increased IP litigation cost of €0.30m, new CEO recruitment cost of €0.18m and increased R&D amortisation of €0.14m.

Net profit/(loss) after taxes was a loss of (€1.88m) for the year ended 2019 compared to a profit of €1.85m for 2018. The 2019 net loss was favourably impacted by an additional adjustment of €1.11m to recognise the deferred tax asset tied to North America net operating losses.

EBITDA decreased to €1.61m for the year of 2019 compared to €5.48m for 2018. After adjusting the 2018 results for the €0.62m one-time legal settlement and after allowing for the 2019 increases of €0.93m in DRS new market development costs, €1.00m separation agreement cost, increased R&D expense of €0.52m and increased Holding Company cost of €0.48m related to IP litigation and CEO recruitment; the 2019 full year EBITDA results and the 2018 full year EBITDA results are €4.54m and €4.86m respectively.

Financial Position

The Company generated a positive €0.81m cash from its operating activities for the year 2019 versus €4.64m in 2018. Cash generated was negatively impacted by increased market development investments and one-time financial charges along with planned inventory increases of €2.00m tied to completed RVMs and long lead-time components in anticipation of Greece and Scotland market requirements.

The Company's bank financing drawn was €4.15m on 31/12/2019 versus €4.43m on 31/12/2018.

Shareholders' equity at 31/12/2019 of €24.35m decreased by €1.62m from year end 31/12/2018 based on the 2019 net loss offset by a positive translation reserve impact of €0.26m.

Operational Developments

The Company is continuing its' extensive preparations for the Scottish DRS legislation. DRS regulations were announced in March 2020 in support of implementation of the law in 2022. Our UK and Scottish management team based out of our Edinburgh showroom is highly engaged in vendor qualifications and planning with major UK grocery chains and independent grocers. The Company has demonstrated the attractiveness and strength of our RVM technology through a number of successful pilots completed and currently operating. Envipco's management team is well positioned to succeed in this important market.

In early December 2019, Envipco opened our facility in Pallini, Greece. We expect continued positive development in this market.

The Company substantially increased its IP litigation costs to €0.80m during the year 2019 as part of several court proceedings. The Company previously received an unfavourable ruling on our patent being litigated. We have since reviewed the German courts report and have now filed an appeal of the court decision. We believe our appeal grounds are well founded and will be successful; accordingly, the Company expects to continue these proceedings.

As previously reported, the new CEO recruitment process has been concluded with Mr. Simon Bolton joining the Company with effect from 17 February 2020. Mr. Bolton will be based in Europe and will lead the establishment of a strong European team to execute the exciting growth potential tied to new DRS legislation.

Operating expenses excluding new market development costs for 2019 increased to €14.76m compared to €11.93m for 2018. The majority of this increase relates to former CEO separation agreement of €1.00m, North America constant currency impact of €0.33m, increased R&D expense of €0.52m and increased Holding expense for IP litigation and CEO recruitment of €0.48m.

Substantial new market development costs of €1.40m were incurred during 2019 compared to €0.48m in 2018. The majority of this cost was surrounding the impending Scottish DRS law and UK market development activities along with cost to establish facilities in Greece. The Company expects to continue to incur new market development costs in Europe around developing DRS opportunities both short and long term.

North America

North American revenues for the year 2019 increased to €32.65m from €32.32m in 2018. On a constant currency basis, North America revenues declined 4.1% for the year 2019. The 2019 decline in revenue was attributable to lower RVM machine sales of €3.65m in 2019 compared €4.31m in 2018. The RVM sales decline is a result of lower new store construction and renovation during the year compared to 2018. The container throughput business volume was stable for the year with revenues of €29.01m compared to €29.52m in 2018 excluding any currency impact. The 2019 container throughput revenue declined as a result of lower commodity prices compared to 2018.

Europe

European revenues for the year 2019 increased 17.6% to €3.60m from €3.06m in 2018. For the year 2019, Sweden has performed very well with Quantum sales and service revenue increasing 141% to €3.05m compared to 2018. The 2019 Sweden improvements are a direct result of the success of the Quantum modular concept completed in 2018. The Greece and France markets had minimal RVMs and parts sales in year 2019 compared to sales of €1.40m in 2018. Leveraging our recently completed Greece facility investments and overall increased market activities, we expect meaningful RVM sales to Greece in 2020. Overall, we see strong short and long term growth potential in Europe with sustained Sweden momentum, continued growth in existing markets including Greece and France, and entry into new markets including Scotland/UK.

Rest of World

ROW revenue, which currently reflects the Australian market had no sales during 2019 and 2018. Our Australian distributor has been delayed in implementing RVM services to supplement current manual operations.

Liquidity

The group generated €0.81m cash from its operating activities for the year 2019 versus €4.64m during 2018. Cash flows used in investing activities were €3.37m for the year 2019 (2018: €3.80m). The debt increased during the year by €1.07m (2018: €0.00m) under the line of credit facility and repayments were €1.45m during the year 2019 compared to €1.30m in 2018. Subsequent to year end, the Company has executed a new $6.00m term loan agreement with its' US banking relationship. The loan proceeds can be utilised for general purpose and European DRS market development expenses and associated inventory requirements. In April 2020 our US subsidiary has received a loan of $1.80m under government assistance program, with 1% interest over two years with deferred interest and principal payments for first six months. Under this program, subject to certain conditions, a portion or all of the loan might be eligible for forgiveness.

Managing Risks

A majority of our current RVM business is dependent upon legislation. The Company may be at risk if such legislation was cancelled, although we have seen no such cancellations in the area where we have operated over the last 20 years. Theoretically this can happen, but we see that even in such an unlikely scenario there will be a notice period which will help the Company plan for any transition. Equally the reverse can also happen as new legislation is implemented in more states and countries.

The Group strategy is to grow and win market share by delivering innovative market solutions at competitive prices along with superior service. The Company may be at risk from competition and new market uncertainties. These risks can be managed by adequate market research to ensure customer acceptance of its products. It also invests consistently in R&D to continually innovate and stay ahead of the competition.

Customers with whom we have long term contracts can go out of business which would have an impact on our costs due to lower volumes. To mitigate the impact, we closely monitor and control our variable costs.

Sharp fluctuation in foreign exchange risk or interest rate risk can impact the cash situation of the Company but is mitigated by proper cash and liquidity management. No hedging is applied to manage foreign exchange and interest rate risk.

Non-availability of lines of credit or restrictions on existing facilities due to breach of covenants or cash to continue to fund projects under a development stage may impact the long-term viability of the Company.

For details on financial risk management, refer to note 5 in the notes to the consolidated financial statements.

Research and development

We manage our research and development expenditures across our entire product portfolio in accordance with our strategic priorities. We make decisions about whether or not to proceed with development projects on a project-by-project basis. In order to maintain and improve the competitiveness of our product and be able to address the new markets for RVMs in Europe Envipco invests heavily in Research and Development. Envipco has over the last years developed products that are unique in the RVM marketplace and established the Company as the innovation leader. The Quantum platform is the first and only bulk feed RVM with market success in particular in high volume outdoor installations, the Flex series of RVMs represents the most compact full-service machine in the market taking 2 or 3 different material fractions. Our major development project nearing completion is the delivery of a new technology core for our single feed RVMs to bring Envipco ahead of the competition in the full range of products. Research costs are recognised as an expense as incurred. Development costs are capitalised if certain conditions are met as further explained in note 3 of the consolidated financial statements.

Employees

At 31 December 2019, we had approximately 186 employees (2018: 180). Envipco recognises the benefits of diversity and is fully committed to providing equal opportunities and treatment for all. The Company has an open and inclusive culture in which diversity is considered to be an added value.

The health and well-being of its employees is an important aspect of Envipco's sustainability strategy. The Company participates through its partners, where possible, wellness programs for the benefits of its employees.
Envipco and its employees must act with integrity, honesty and in compliance with the laws, as stipulated in the Company's Code of Conduct, which is available on the Company website.

Envipco interacts frequently with all its stakeholders including investors, employees, partners and local communities in both formal and informal settings.

Social and Environmental

Envipco is an active and engaged corporate citizen that regularly provides educational tours to school groups, environmental groups and political decision-makers focused on learning more about the recycling process. We offer scholarships and internships to students interested in pursuing environmentally-focused careers and participate in programmes designed to give workers a second chance.

Envipco is always implementing new ways to reduce our carbon footprint. We are a lean manufacturing Company that has improved our facilities with green materials and have several initiatives ongoing to move toward a zero-waste environment.

Envipco RVMs are essential to efficient recycling of beverages through deposit systems and are as such environmental products. All Envipco products are developed and manufactured according to environmental requirements like the Restriction of the Use of certain Hazardous Substances in Electrical and Electronic Equipment (RoHS), and designed for recyclability. In our design efforts we seek to minimise power usage both during operations (efficient compaction) and in idle mode.

Stichting Employees Envipco Holding ('the New Foundation')

A foundation, Stichting Employees Envipco Holding was formed in 2011 with the following Board members:

- Mr. Dick Stalenhoef
- Mr. Guy Lefebvre

The New Foundation was set up in the past to establish an employee share based payment plan. No such plan is in place and the Foundation currently has no activities.

Summary as of 31 December 2019 of Issued Share Capital

	2019	2018
	€'000	€'000
Common stock of €0.50 nominal value per share:		
Opening and closing balance	**4,097,607**	**4,097,607**

During the year 2018 the Company issued 260,000 ordinary shares via private placement. For more details please refer to note 20 of the notes to the consolidated financial statements. No shares have been issued in 2019.

Substantial Shareholding

The Group has been notified of or is aware of the following 3% or more interests at 31 December 2019 and 2018.

	31 December			
	2019		2018	
	Number of Shares	Shareholding %	Number of Shares	Shareholding %
A. Bouri/Megatrade International SA	2,168,068	52.91	2,171,068	52.98
G. Garvey	521,513	12.73	521,513	12.73
B. Santchurn/Univest Portfolio Inc	155,480	3.79	155,480	3.79
D. Poling/GD Env LLC	200,000	4.88	200,000	4.88
Otus Capital Management Ltd	247,727	6.05	247,727	6.05
Lazard Freres Gestion SAS	222,532	5.43	222,532	5.43

Directors and their Interests

As per Articles of Association of the Company, the Board comprises of executive and non-executive board members. The Board includes five non-executive and one executive board members. Mr. B. Santchurn left the Company in December 2019. The current Directors of the Company are as follows:

Non-executive:	**Executive:**
Mr. Alexandre Bouri	Mr. Gregory Garvey (Chairman)
Mr. Dick Stalenhoef	
Mr. Guy Lefebvre	
Mr. David D'Addario	
Mr. Christian Crepet	

For further details please click on the link: https://www.envipco.com/investors_bod in respect of gender, age, nationality, principal position, date of initial appointment and current term.

Corporate Governance

Dutch Corporate Governance Code

Based on EU law, the Company is considered to be a Public Interest Entity (in Dutch "Organisatie van Openbaar Belang" or "OOB") as it has issued financial instruments, which are listed on the regulated market of the Euronext Amsterdam and Brussels.

Based on article 2 of the EC directive 2006/43/EC Implementation Decree of 26 July 2008 (the "Decree") concerning audit of annual accounts, the Company has to comply with parts of the Dutch Corporate Governance Code.

Compliance with the Dutch Corporate Governance Code

The Dutch Corporate Governance Code of December 2016 effective 1 January 2017 (the "Code") was complied with except for the provisions mentioned below. The Code contains principles and best practice provisions for a managing board, supervisory boards, shareholders and general meetings of shareholders, financial reporting, auditing, disclosure, compliance with and enforcement of the Code.

The corporate governance code can be accessed at http://commissiecorporategovernance.nl/information-in-english

Dutch companies admitted to trading on a registered stock exchange or, under certain circumstances, registered on a multilateral trading facility, whether in the Netherlands or elsewhere, are required under Dutch law to disclose in their annual reports whether or not they apply the provisions of the Code and, if and to the extent they do not apply, to explain the reasons why.

The Company acknowledges the importance of good corporate governance. Since 2011 the Company supports the Code (www.envipco.com) and has started to implement the relevant provisions of the Code subject to the exceptions set out below:

The Company does not comply with the following provisions of the Dutch corporate governance code:

II.2 The Company does not have in place a formal risk management system. In the view of the Board of Directors, the Company has adequate measures in place to monitor risks considering the size of the Company.

II.2.1.5 The Company has not drawn up a formal diversity policy, in view of the size of the Company, the Board of Directors is of the opinion that this is not necessary.

II.2.14 The Company has not published on its website the main elements of the service agreements with the executive directors. In view of the size of the Company, the Board of Directors is of the opinion that publishing elements of the salary of executive directors in the financial statements is sufficient.

II.2.2.8 The Company does not have a formal evaluation process for non-executive board, various committees and for executive and non-executive members. In view of the size of the Company, the Board of Directors is of the opinion that this is not necessary.

II.2.4.4 The Company does not publish attendance percentages of its non-executive board meetings. In view of the low number of meetings, the Board of Directors is of the opinion that this is not necessary.

III.3.1 The Company has not prepared a profile for the non-executive members of the Board of Directors. In view of the size of the Board of Directors, the Board of Directors is of the opinion that this is not necessary.

III.3.6 The Board of Directors has not made a schedule of retirement by rotation. In view of the size of the Company, the Board of Directors is of the opinion that this is not necessary.

III.4.3 The Company has no secretary. Due to the size of the Company, the Company believes this is not necessary.

III.5 The Company does not have a remuneration committee or a selection and nomination committee. The tasks to be performed by these committees are performed by the non-executive members of the Board of Directors. In view of the size of the Company, there is no need to have a separate remuneration committee and a nomination and selection committee.

V.1.5 The non-executive directors have not rendered their formal report. In view of the size of the Company, the Board of Directors is of the opinion that certain relevant information provided elsewhere in the financial statements is sufficient.

V.3 The Company has no internal audit function. In view of the size of the Company, the Company believes this is not necessary. The internal risks are in the view of the Board of Directors adequately monitored.

The Directors confirmed that the Company, except for the above Articles is in compliance with the Code.

General Meetings of Shareholders and Voting Rights

The Annual General Meeting of Shareholders must be held within six months after the end of each financial year. The notice convening any General Meeting of Shareholders shall contain an agenda indicating the items for discussion included therein. The notice for convening the General Meeting of Shareholders shall mention the registration date and the manner in which the persons with meeting rights at the General Meeting of Shareholders may procure their registration and the way they may exercise their rights. The registration date is the twenty-eighth day prior to the date of the General Meeting of Shareholders.

Decisions of the General Meeting of Shareholders are taken by a majority of three/fourths of the votes validly cast, except where Dutch law or the Company's Articles of Association provide for a special or greater majority.

Pursuant to the Implementing Decree of 5 April 2006 relating to Article 10 of Directive 2004/25/EC on takeover bids of 21 April 2004 of the European Parliament and the Council of the European Union, Envipco includes the following explanatory notes:

As at 31 December 2019 and 2018 Envipco had issued 4,097,607 ordinary shares. The Company issued 260,000 ordinary shares via private placement during 2018.

There are no physical share certificates issued, except for entries in the shareholders register. The Articles of Association do not provide for any limitation on the transferability of the ordinary shares.

Significant direct and indirect shareholdings are set out in this report under the section 'Substantial Shareholdings'.

Envipco currently does not hold any employee share scheme in which the control rights are not exercised directly by the employees.

The voting right is not subject to any limitation. All shares entitle the holder to one vote per share. No securities with special control rights have been issued. No agreement has been entered with any shareholder that could give rise to any limitation on the transfer of shares and/or voting rights.

Unless otherwise specified by the Articles, all resolutions at the General Meeting of Shareholders shall be passed by a majority of three/fourths of the votes cast.

The appointment, suspension and discharge of the members of the Board of Managing Directors and their remuneration are decided at the General Meeting of Shareholders as per Article 8 of the Articles of Association.

The issue of new shares shall be by a resolution of the General Meeting of Shareholders and subject to the provisions of Article 5 of the Articles of Association.

The Enterprise Chamber may at the request of the Company, any shareholder of the Company, for shares issued with the cooperation of the Company or a foundation or association with full legal capacity which articles promote the interests of such Company, shareholder, order a shareholder who has obtained 30% or more of the Company's voting rights or more to make a public offer in respect of all shares.

The above mentioned obligation for a person acting solely or together with others to make a public offer does not apply according to the Exemption Decree on Public Offers (*Vrijstellingbesluit overnamebiedingen Wft*) in cases where prior to, but no more than three months prior to, the acquisition of 30% or more of the Company's shares or voting rights, the General Meeting of the Shareholders has approved such acquisition with 95% of the votes cast by others than the acquirer and the person(s) acting with him/her.

After a public offer, pursuant to Section 2:359c of the Dutch Civil Code, a holder of at least 95% of the outstanding shares and voting rights, which has been acquired as a result of a public offer, has the right to require the minority shareholders to sell their shares to him/her.

Corporate Social Responsibility

As a Company dedicated to improving the rates at which the world recycles, Envipco works closely to help all of our clients reach their environmental goals. By helping beverage companies recover significant percentages of their bottles and cans, we have developed customised programs that promote sustainability. Envipco also proactively promotes its comprehensive recycling program and constantly explores new opportunities for greener operations.

Within the communities in which we operate, Envipco is an active and engaged citizen. We recognise our potential role as educators, regularly inviting school groups to tour our manufacturing facility to learn more about the process of recycling. We offer scholarships and internship programs to students interested in pursuing environmentally focused careers.

We have begun setting up the foundation of good corporate social responsibility principles which we intend to adopt as the Company grows. We plan to implement various initiatives to achieve a high level of employee satisfaction, optimising the use of both internal and external resources to have the most efficient carbon foot print while ensuring the adoption of a high code of conduct and ethics relating to all aspects of our business.

Code of conduct

The Company subscribes to the highest standards of ethical business conduct and fair and honest dealings with all of its stakeholders: employees, customers, partners, suppliers, shareholders, investors and the community at large. The Code of Conduct sets forth standards to promote honest and ethical conduct, appropriate public disclosures and legal compliance and includes policies related to conflicts of interest, record keeping, use of Company property or resources, and policies regarding fraud, dishonesty or criminal conduct. This code applies to the Company and all its affiliates and provides a mandatory guide for every employee (including every officer) and member of the Board of Directors (BOD Members) that explains your role within the Company as it relates to the work we do and how we interact with one another and those with whom we do business. Full details of the policy is available at: https://www.envipco.com/sr_pdf/Code-of-Conduct-2019.pdf

Internal Controls

The executive board is responsible for establishing and maintaining adequate internal controls. The executive board members are involved in the day to day management. Both these members are responsible to implement the management board's decisions and strategy and are also accountable to the management board for their respective organisations.

Envipco's internal control system is designed to provide reasonable assurance to the Company's management board regarding the preparation and fair presentation of published financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). All internal control systems, no matter how well designed, have inherent limitations, and therefore can provide only reasonable assurance with respect to financial statement preparation and presentation. Management maintains a comprehensive system of controls intended to ensure that transactions are executed in accordance with Management's authorisation, assets are safeguarded, and financial records are reliable. Management periodically assesses the effectiveness of the Company's internal controls and believes these to be effective and reliable.

The Management Board

The Company's Management Board consisted of 2 executive and 5 non-executive directors during 2019. The non-executive directors shall elect a chairman of the Management Board from among themselves. The Management Board is charged with the management of the Company and is responsible for establishing the Group's strategy and general policies. The executive director is responsible for the day-to-day management of the Company.

In the opinion of the non-executive board, the independence requirements referred to in the best practice provision 2.1.7 to 2.1.9 inclusive have been fulfilled except for in relation to its chairman. There are 2 non-executive board members out of five who are not considered independent.

Currently the Company does not have any female members in the Management Board and does not meet the 30% target. The Company shall be making efforts to appoint female members to its Board. Such efforts for consideration at the June 2020 AGM have been negatively challenged by the COVID-19 travel restrictions.

Audit Committee

The Company has established an audit committee which operates pursuant to the terms of reference adopted by the Board of Directors, which are published on the Company's website. The audit committee was established by the Board of Directors on 27 June 2011 and is comprised of three non-executive directors appointed by the Board of Directors. The terms of reference of the audit committee are included in the Board Regulations. The audit committee is chaired by the person appointed thereto by the Board of Directors, provided that this person: i) shall be independent (in the manner prescribed by the Dutch Corporate Governance Code, and set out in the Board regulations), ii) shall not be the chairman of the Board of Directors, nor a former executive director, and iii) shall have the necessary qualifications. The audit committee shall meet at least four times per year, or more frequently according to need. Currently, the audit committee consists of Mr. Stalenhoef as chairperson and Mr. Lefebvre.

Due to the frequent discussions of the audit committee with senior management within the Group and discussions with our external auditors, the committee is satisfied with its oversight on financial reporting, risk management and audit functions of the Group activities, even though no formal procedure is currently in place due to the frequent involvement of the audit committee members with the senior management. It has therefore not completely formalised this part of the governance code.

Nomination

The Articles of Association of the Company provide for the number of directors to be determined by the Management Board. The remuneration and the terms and conditions of employment for each director are determined at the General Meeting of Shareholders.

Representation

The Company is represented by the Management Board or by one executive director.

Meetings

Meetings of the Management Board are convened upon the request of a member of the Management Board. Resolutions of the Management Board are passed by an absolute majority of votes.

Whistleblower Policy

The Company's whistleblower policy can be accessed at its website:
https://www.envipco.com/sr_pdf/Whistleblower-Policy-2019.pdf

Articles of Association

Per Article 9 Clause 9.8 of the Articles of Association, the Management Board shall require the approval of the General Meeting of the Shareholders for resolutions concerning a major change such as the amendment of the Articles of Association of the Company.

Auditors

The General Meeting of Shareholders shall appoint the auditors of the Company.

Post Balance Sheet Events

Bank Financing

Subsequent to year end, the Company's US subsidiary has executed a new $6.00m term loan agreement, with 3.51% interest over five years with its main lender. In April 2020 our US subsidiary has received a loan of $1.80m under government assistance program, with 1% interest over two years with deferred interest and principal payments for first six months. Under this program, subject to certain conditions, a portion or all of the loan might be eligible for forgiveness.

COVID-19

On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) pandemic. The US response to COVID-19 has the effect of temporarily suspending enforcement of redemption services in certain US states for retailers. Since mid-March 2020 the impact has been a significant decrease in revenue.

Redemption services however are designated as an essential business which reflects the importance of customers to be able to redeem deposits paid. We expect redemption services to pick-up again when the enforcement suspensions are lifted in the course of 2020. The Company expects this will start to occur in June 2020. The Company has already secured incremental financing in 2020 from a new term loan of EUR 5.4m. After the outbreak of COVID-19 the Company obtained funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act's Paycheck Protection Program of EUR 1.6m. Currently the Company has sufficient liquidity.

In case redemption service will be suspended for a prolonged period management will take measures to reduce cost levels to meet its covenant for the US activities and delay expenditures relating to the European expansion activities. Considering these measures, combined with the incremental financing obtained in 2020, management has prepared the financial statements based on the going concern assumption. The COVID-19 pandemic however remains a challenge for the global economy and at the date of these financial statements its effects remain subject to levels of uncertainty.

Overall Outlook

Under the current situation and subject to COVID-19 impact as explained above, the Company continues strengthening the North America performance, to invest in Research and Development, and to growth in the European markets of Sweden, Greece and France. Further growth is anticipated and tied to new DRS legislation becoming effective in a number of European markets. However, due to the ongoing situation with COVID-19, there might be some delays with our plans in potential European markets. As mentioned earlier, uncertainties relating to this COVID-19 situation are likely to impact the 2020 results as well as our investments.

Board Responsibility Statement

In accordance with best practice II.1.5 of the Dutch corporate governance code of December 2016, the Board of Directors confirms that internal controls over financial reporting provide a reasonable level of assurance that the financial reporting does not contain any material inaccuracies and confirms that these controls functioned properly in the year under review and that there are no indications that they will not continue to do so. The financial statements fairly represent the Company's financial condition and the results of the Company's operations and provide the required disclosures.

It should be noted that the above does not imply that these systems and procedures provide absolute assurance as to the realisation of operational and strategic business objectives, or that they can prevent all misstatements, inaccuracies, errors, fraud and non-compliances with legislation, rules and regulations.

The Company's directors hereby declare that, to the best of their knowledge:

- the annual financial statements for the year 2019, which have been prepared in accordance with the International Financial Reporting Standards (IFRS) as endorsed by the European Union and with Part 9 of Book 2 of the Dutch Civil code, give a true and fair view of the assets, liabilities, financial position and the profit or loss of the Company and its consolidated entities;
- the directors' report gives a true and fair view of the position of the Company and its related entities whose financial information has been consolidated in the annual financial statements as at the balance sheet date 31 December 2019 and of their state of affairs during the financial year 2019;
- the annual report describes the principal risks that the Company faces.

w.s. Gregory Garvey
Chairman

w.s. Alexandre Bouri

w.s. Dick Stalenhoef

w.s. Guy Lefebvre

w.s. Christian Crepet

w.s. David D'Addario

12 May 2020

Remuneration Policy of the Board of Directors

This Remuneration Report is the first report on remuneration from the Board of Directors reflecting the provisions of EU Shareholder Rights Directive that became effective in the Netherlands in 2019 ("SRD"). Our non-executive directors annually propose the remuneration of the individual executive members of our Board of Directors to the General Meeting of Shareholders. Customary benefits are provided to the management board members in line with respective industry and country practice.

The short-term compensation of the Management Board includes both fixed and variable compensation, which is dependent upon the area of individual responsibility, expertise, position experience, conduct and performance. The variable component of minimum 25% of base salary is discretionary and dependent upon specific performance criteria such as EBITDA and aligned with the long-term performance measure of the Company and reviewed on an annual basis. There is no possibility to reclaim variable compensation.

For 2019 the variable compensation was based on specific performance measures and goals including EBITDA of the US subsidiary, that were met to a certain extent and appropriate bonus based thereon was established.

No long-term compensation plan or share based payment compensation plan is in place.

The compensation for the non-executive directors is not formalised and is based on time spent and amounts charged. Not all non-executive directors claimed compensation for services provided.

Board Remuneration in 2019

The remuneration of the Management Board charged to the result in 2019 was €1,930,000 (2018: €624,000), which and can be specified as follows:

in EUR thousands	Fixed Salary/fee	Variable compensation	Fringe benefits	Pension cost	Extraordinary compensation	Total	Proportion of fixed and variable compensation
2019							
B. Santchurn*	409	274	36	4	1,070	1,793	25/75
G. Garvey *	54	-	-	-	-	54	100/0
C. Crepet	20	-	-	-	-	20	100/0
T.J.M. Stalenhoef	53	-	-	-	-	53	100/0
G. Lefebvre	10	-	-	-	-	10	100/0
A. Bouri	-	-	-	-	-	-	
D. D'Addario	-	-	-	-	-	-	
Total	**546**	**274**	**36**	**4**	**1,070**	**1,930**	
2018							
B. Santchurn*	371	110	26	3	-	510	78/22
G. Garvey*	51	-	-	-	-	51	100/0
C. Crepet	11	-	-	-	-	11	100/0
T.J.M. Stalenhoef	42	-	-	-	-	42	100/0
G. Lefebvre	10	-	-	-	-	10	100/0
A. Bouri	-	-	-	-	-	-	
D. D'Addario	-	-	-	-	-	-	
Total	**485**	**110**	**26**	**3**	**-**	**624**	

**B. Santchurn and G. Garvey are Executive Directors, Other members of the Board are Non-Executive Directors.*

The fixed compensation is annually determined by the non-executive directors. The variable compensation is based on the realisation of set targets. In 2019 the variable pay-out for B. Santchurn was established based on certain specific criteria including EBITDA of our US subsidiary.

Pension entitlements consist of €4,000 (2018: €3,000). Fringe benefits consist of employer contributions of €36,000 (2018: €26,000).

In 2019 a severance payment of €1,070,000 was included in relation to the expiration of the agreement with the former CEO. Non-executive Directors obtain a fixed compensation based on time spent and charged, except for A. Bouri and D. D'Addario.

A loan to Mr. Christian Crepet, a director, of €20,000 given in 2012 with a balance of €1,317 on 31 December 2018 was repaid with interest at Euribor plus 1%, in 2019. A. Bouri, the majority shareholder, received €1,000 (2018: €3,000) as interest on the loan due him from the Company for an amount of €100,000, which was repaid during the year. See note 26 for related party transactions.

The pay ratio of the CEO in compensation with the average total employee benefit cost per employee as required under the Dutch corporate governance system was 27 in 2019 and 11 excluding the severance payment (2018: 8). The pay ratio is calculated as total benefits paid, excluding board compensation, to employee's average benefit expense per employee for the year.

The table below shows the year-on-year change in remuneration of the Board members. Also included is EBITDA for those years as well as the change in employee compensation.

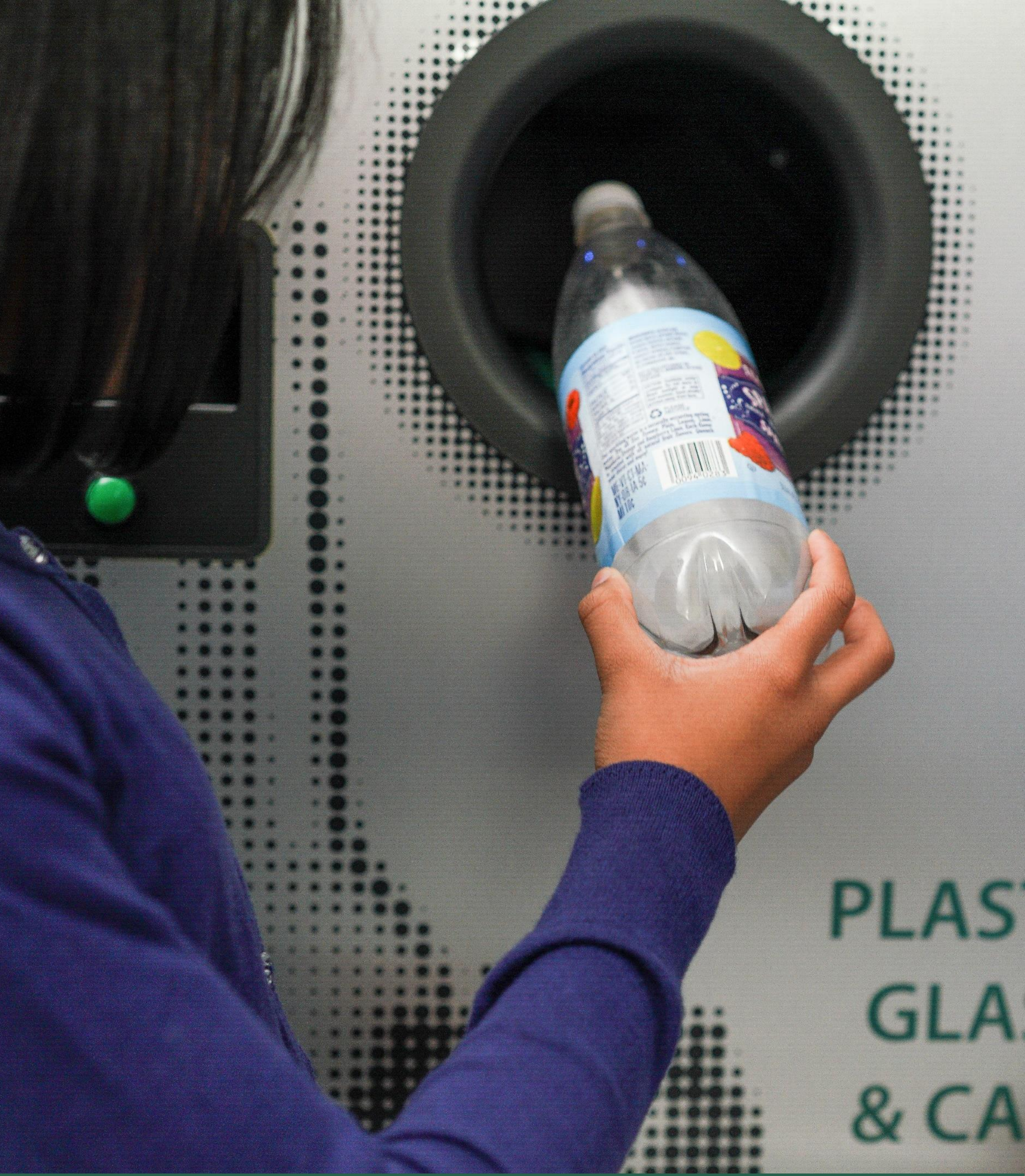
in EUR thousands	2015	2016	2017	2018	2019
Executive Members					
B. Santchurn	12%	10%	10%	-18%	*42%
G. Garvey	-58%	13%	-3%	-14%	6%
Non-executive Members					
T.J.M. Stalenhoef	6%	6%	11%	-	26%
G. Lefebvre	-	-	-	-	-
A. Bouri	-	-	-	-	-
D. D'Addario	-	-	-	-	-
C. Crepet	-100%	-	100%	10%	82%
EBITDA	-53%	6%	-7%	29%	-71%
Change in employee average compensation	16%	14%	-9%	11%	7%

**Excluding severance payment.*

The Directors' interests in the share capital of the Group are shown below:

	31 December			
	2019		2018	
	Number of Shares	Shareholding %	Number of Shares	Shareholding %
Alexandre Bouri/Megatrade International SA	2,168,068	52.91	2,171,068	52.98
Gregory Garvey	521,513	12.73	521,513	12.73
B. Santchurn*/Univest Portfolio Inc.	155,480	3.79	155,480	3.79
C. Crepet	7,012	0.17	7,012	0.17
D. D'Addario	80,451	1.96	80,451	1.96
TJM Stalenhoef	600	0.01	600	0.01

***Mr. B. Santchurn's term as executive director expired on 31 December 2019**



Financial Statements

Consolidated Statement of Profit or Loss and Comprehensive Income

in EUR thousands	Note	FY 2019	FY 2018
Revenue	(6)	36,251	35,380
Cost of revenue		(22,699)	(21,441)
Gross Profit		**13,552**	**13,939**
Selling and distribution expenses		(1,074)	(1,118)
General and administrative expenses	(9, 13 & 14)	(13,762)	(10,486)
Research and development expenses		(1,323)	(801)
Other income	(8)	26	651
Operating Profit (loss)		**(2,581)**	**2,185**
Financial expense	(10)	(273)	(269)
Financial income	(10)	93	3
Net finance (cost) and or income		(180)	(266)
Profit (loss) before tax		**(2,761)**	**1,919**
Income taxes	(11)	882	(65)
Profit (loss)		**(1,879)**	**1,854**
Other comprehensive income			
Items that will be reclassified subsequently to profit and loss			
Exchange differences on translating foreign operations		265	809
Total other comprehensive income		265	809
Total comprehensive income		**(1,614)**	**2,663**
Profit attributable to:			
Owners of the parent		(1,883)	1,848
Non-controlling interest		4	6
Total			
Profit/(loss) for the period		**(1,879)**	**1,854**
Total comprehensive income attributable to:			
Owners of the parent		(1,619)	2,657
Non-controlling interests		5	6
		(1,614)	**2,663**
Number of weighted average (exclude treasury shares) shares used for calculations of EPS		4,098	3,982
Earnings/(loss) per share for profit attributable to the ordinary equity holders of the parent during the period			
- Basic (euro)	(12)	(0.46)	0.47
- Fully diluted (euro)	(12)	(0.46)	0.47

The notes on pages 24 to 64 are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

in EUR thousands	Note	FY 2019	FY 2018
ASSETS			
Non-current assets			
Intangible assets	(13)	6,160	6,016
Property, plant and equipment	(14)	9,668	9,165
Financial assets	(15)	208	349
Deferred tax assets	(16)	2,934	1,819
Total non-current assets		**18,970**	**17,349**
Current assets			
Inventory	(17)	10,341	8,525
Trade and other receivables	(18)	9,960	10,021
Cash and cash equivalents	(19)	675	4,107
Total current assets		**20,976**	**22,653**
Total assets		**39,946**	**40,002**
EQUITY			
Share capital	(20)	2,049	2,049
Share premium	(20)	51,703	51,874
Translation reserves	(20)	4,093	3,838
Legal reserves	(20)	5,700	5,529
Retained earnings	(20)	(39,192)	(37,318)
Equity attributable to owners of the parent		**24,353**	**25,972**
Non-controlling interests		32	27
Total equity		**24,385**	**25,999**
Liabilities			
Non-current liabilities			
Borrowings	(21)	2,975	3,014
Lease commitments	(21)	366	-
Other liabilities	(21)	120	220
Total non-current liabilities		**3,461**	**3,234**
Current liabilities			
Borrowings	(21)	1,171	1,420
Trade creditors		6,569	6,406
Accrued expenses	(24)	3,440	2,554
Provisions	(22)	314	77
Lease commitments		388	-
Tax and social security		218	312
Total current liabilities		**12,100**	**10,769**
Total liabilities		**15,561**	**14,003**
Total equity and liabilities		**39,946**	**40,002**

The notes on pages 24 to 64 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

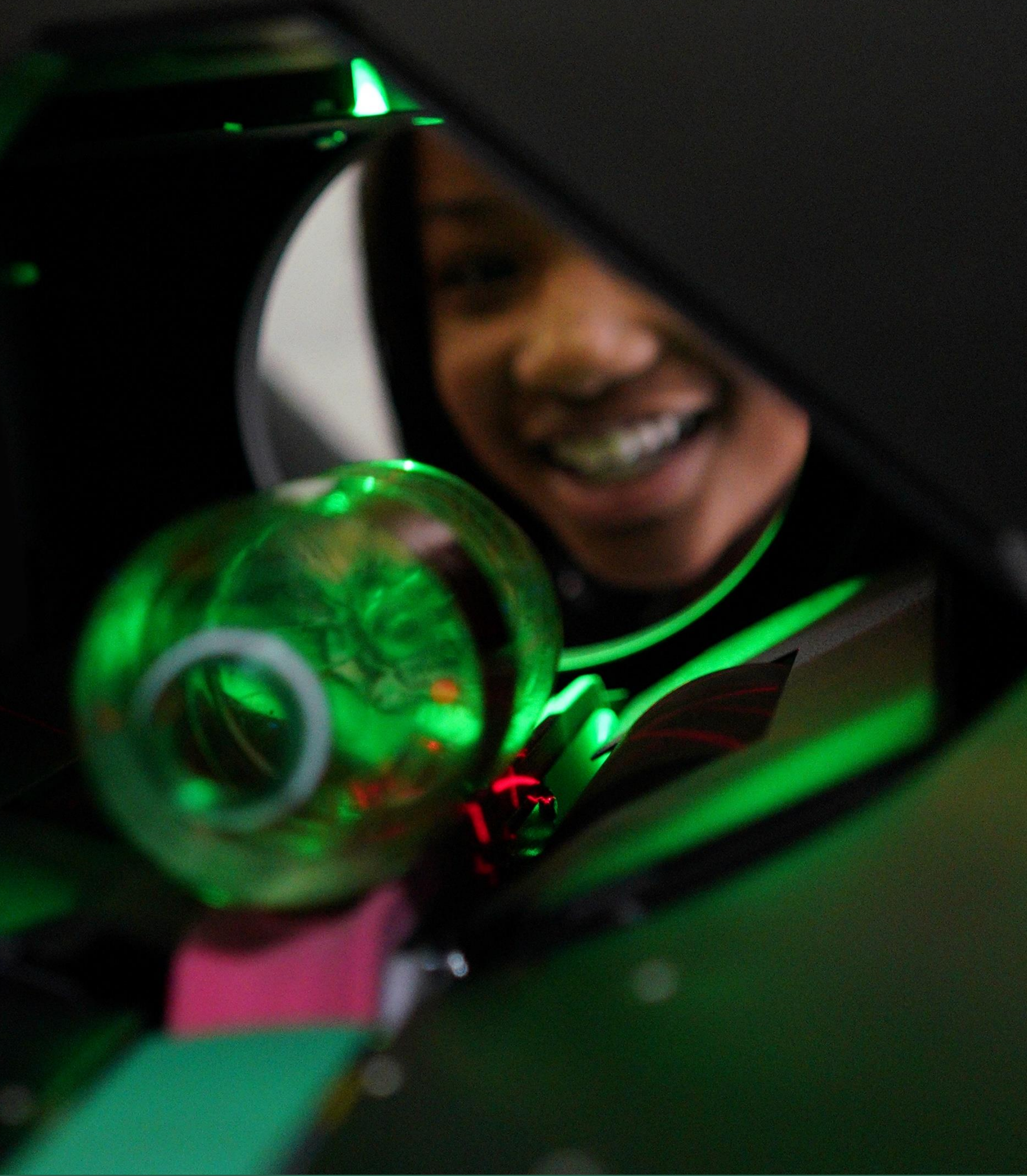
in EUR thousands	Note	FY 2019	FY 2018
Cashflow from operating activities			
Operating results		(2,581)	2,185
Adjustment for:			
Amortisation	(13)	1,187	1,028
Depreciation	(14)	2,488	2,336
Changes in:			
Changes in trade and other receivables		61	(269)
Changes in inventories		(1,418)	(583)
Changes in provisions		244	94
Changes in trade and other payables		1,312	135
Changes in other liabilities		(100)	-
Cash generated from operations		**1,193**	**4,926**
Interest received and paid		(189)	(223)
Income taxes paid		(199)	(65)
Net cash flow from operating activities		**805**	**4,638**
Investing activities			
Development expenditure, patents	(13)	(1,386)	(1,488)
Investments in property, plant & equipment	(14)	(1,982)	(2,307)
Net cash flow used in investing activities		**(3,368)**	**(3,795)**
Financial activities			
Proceeds from issuance shares		-	2,711
Changes in borrowings – proceeds	(21)	1,072	-
Changes in borrowings – repayments	(21)	(1,450)	(1,298)
Changes in lease commitments		(527)	-
Net cash flow from financing activities		**(905)**	**1,413**
Net increase/(decrease) in cash and cash equivalents		**(3,468)**	**2,256**
Opening position		4,107	1,788
Foreign currency differences on cash and cash equivalents		36	63
Closing position		675	4,107
The closing position consists of:			
Cash and cash equivalents	(19)	675	4,107
Total closing balance in cash and cash equivalents		**675**	**4,107**

The notes on pages 24 to 64 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

in EUR thousands	Share Capital	Share Premium	Translation Reserve	Legal Reserve	Retained Earnings	Total	Non-Controlling Interests	Total Equity
Balance at 1 January 2018	**1,919**	**49,718**	**3,019**	**5,104**	**(39,157)**	**20,603**	**22**	**20,625**
Net profit/(loss) for the period	-	-	-	-	1,848	1,848	6	1,854
Other comprehensive income								
- Currency translation adjustment	-	-	810	-	-	810	(1)	809
Total comprehensive income for the period	**-**	**-**	**810**	**-**	**1,848**	**2,658**	**5**	**2,663**
Issuance of shares	130	2,581	-	-	-	2,711	-	2,711
Legal reserve	-	(425)	-	425	-	-	-	-
Balance at 31 December 2018	**2,049**	**51,874**	**3,829**	**5,529**	**(37,309)**	**25,972**	**27**	**25,999**
Changes in equity for 2019								
Net profit/(loss) for the period	-	-	-	-	(1,883)	(1,883)	4	(1,879)
Other comprehensive income								
- Currency translation adjustment	-	-	264	-	-	264	1	265
Total comprehensive income for the period	**-**	**-**	**264**	**-**	**(1,883)**	**(1,619)**	**5**	**(1,614)**
Legal reserve	-	(171)	-	171	-	-	-	-
Balance at 31 December 2019	**2,049**	**51,703**	**4,093**	**5,700**	**(39,192)**	**24,353**	**32**	**24,385**

The notes on pages 24 to 64 are an integral part of these consolidated financial statements.



Notes to Consolidated Financial Statements

(1) General information

(a) Reporting entity and relationship with parent Company

Envipco Holding N.V. is a public limited liability Company incorporated in accordance with the laws of The Netherlands, with its registered address at Arnhemseweg 10, 3817 CH Amersfoort, The Netherlands (Chamber of Commerce number: 33304225). The Company is a holding Company and is incorporated in Amsterdam.
Envipco Holding N.V. and Subsidiaries (“the Group” or “Envipco”) are engaged principally in Recycling in which it develops, manufactures, assembles, leases, sells, markets and services a line of “reverse vending machines” (RVMs) mainly in the USA and Europe.

Deposit redemption programs

Under deposit redemption programs in the US, the Company is responsible for the operation of systems to redeem, collect, account for and dispose of used beverage containers. In connection with these programs, participating retailers lease or purchase RVMs from the Company. The Company then acts in a clearinghouse capacity to collect deposits and handling fees on redeemed containers from participating beverage distributors and to distribute deposit refunds and handling fees to participating retailers. Accordingly, deposits and handling fees as paid to the participating retailers are not included as revenue and expense in the consolidated financial statements. The Company earns its revenues through leasing and selling machines to retailers and other participants, and through various services provided to distributors and retailers, including container collection, disposition, and accounting services (See note 6).

(b) Financial reporting period

These financial statements cover the year 2019, which ended at the balance sheet date of 31 December 2019.

(c) Going concern

On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) pandemic. The US response to COVID-19 has the effect of temporarily suspending enforcement of redemption services in certain US states for retailers. Since mid-March 2020 the impact has been a significant decrease in revenue.

Redemption services however are designated as an essential business which reflects the importance of customers to be able to redeem deposits paid. We expect redemption services to pick-up again when the enforcement suspensions are lifted in the course of 2020. The Company expects this will start to occur in June 2020. The Company has already secured incremental financing in 2020 from a new term loan of €5.40m. After the outbreak of COVID-19 the Company obtained funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act’s Paycheck Protection Program of €1.60m. Currently the Company has sufficient liquidity.

In case redemption service will be suspended for a prolonged period management will take measures to reduce cost levels to meet its covenant for the US activities and delay expenditures relating to the European expansion activities. Considering these measures, combined with the incremental financing obtained in 2020, management has prepared the financial statements based on the going concern assumption. The COVID-19 pandemic however remains a challenge for the global economy and at the date of these financial statements its effects remain subject to levels of uncertainty.

(2) Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Company are part of the statutory financial statements of the Company. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRSs) and with Section 2:362(9) of the Dutch Civil Code.
These Financial Statements have been approved for issue by the Board of Directors on 12 May 2020 and are subject to adoption by the shareholders at the Annual General Meeting of Shareholders. All amounts are in thousands of euros unless stated otherwise.

This is the first set of the Group's annual financial statements in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in note 3(a).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity are disclosed in note 3.

Basis of measurement

Valuation of assets and liabilities and determination of the result takes place under the historical cost convention. Unless presented otherwise at the relevant principle for the specific balance sheet item, assets and liabilities are presented at amortised costs. Income and expenses are accounted for on accrual basis. Profit is only included when realised on the balance sheet date. Losses originating before the end of the financial year are taken into account if they have become known before preparation of the financial statements. Revenues from goods are recognised upon delivery. The cost of these goods is allocated to the same period. Revenues from services are recognised in proportion to the services rendered. The cost of these services is allocated to the same period.

(b) Measurement of fair values

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability or;

- In the absence of a principal market, in the most advantageous market for the asset or liability;

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

(3) Summary of significant accounting policies

(a) Changes in accounting policies

Except for the changes below, the Group has consistently applied the accounting policies set out in note 3 to all periods presented in these consolidated financial statements. The nature and effect of the changes are explained below.

The Group has initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards and amendments are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements. These new standards and amendments are as follows:

The Group applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

A. Definition of a lease

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Group now assesses whether a contract is or contains a lease based on the definition of a lease as included in IFRS 16.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

B. As a lessee

As a lessee, the Group leases many assets including property, production equipment and IT equipment. The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Group. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

However, for leases of property the Group has elected not to separate non-lease components and account for the lease and associated non-lease components as a single lease component.

Leases classified as operating leases under IAS 17

Previously, the Group classified property leases as operating leases under IAS 17. On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application: The Group applied this approach to its largest property lease; or
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: The Group applied this approach to all other leases.

The Group has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The Group used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the Group:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use assets at the date of initial application; and
- used hindsight when determining the lease term.

C. As a lessor

The Group leases out its own property being mainly RVM machines. The Group has classified these leases as operating leases.

The Group is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease, which is not applicable for the Group.

D. Impact on financial statements

*i. Impact on transition**

On transition to IFRS 16, the Group recognised additional right-of-use assets, and additional lease liabilities, recognising the difference (if any) in retained earnings. The impact on transition is summarised below.

EUR '000	**Impact of adopting IFRS 16 at 1 January 2019**
Right-of-use assets – property, plant and equipment	911
Lease liabilities	911
Retained earnings	**-**

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted-average rate applied is 8%.

The reconciliation between the operating lease commitments as disclosed under IAS 17 in the Group's consolidated financial statements as at 31 December 2018 and the lease liabilities recognised at 1 January 2019 is as follows:

EUR '000	1 January 2019
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	1,339
Adjustment amounts not included as at 31 December 2018	(223)
Discounted using the incremental borrowing rate at 1 January 2019	(151)
Finance lease liabilities recognised as at 31 December 2018	965
– Recognition exemption for leases of low-value assets	(10)
– Recognition exemption for leases with less than 12 months of lease term at transition	(44)
– Extension options reasonably certain to be exercised	-
Lease liabilities recognised at 1 January 2019	911

The impact of IFRS 16 on the 2019 income statement is as follows:

EUR '000	2019
Increase in depreciation expense	442
Increase in interest expense	68
Decrease in operating expense	(527)
Tax impact	-
Net impact	(17)

The impact on the cash flow statement is that an amount of €527,000 is now included as financing cash flow while it was previously included in operating cash flow.

New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2019 and not adopted early by the Group:

Standards issued but not yet effective

A number of new standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following amended standards and interpretations are not expected to have a significant impact on the Group's consolidated financial statements.

- *Amendments to References to Conceptual Framework in IFRS Standards*.
- *Definition of a Business (Amendments to IFRS 3)*.
- *Definition of Material (Amendments to IAS 1 and IAS 8).*
- IFRS *17 Insurance Contracts.*
- *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).*

(b) Consolidated cash flow statement

The Group's consolidated statement of cash flows is presented using the indirect method.
The funds in the cash flow statement consist of cash and cash equivalents. Bank overdrafts are included as a component of cash and cash equivalents when the overdrafts are repayable on demand and often fluctuate. Cash flows in foreign currencies are translated at an average rate.

(c) Consolidation

Basis of consolidation

Based on IFRS 10, the Company prepares consolidated financial statements where it controls an entity or entities, as defined under Subsidiaries below, and following the principles of control, it will consolidate an entity irrespective of the nature of the entity. If the Company has the power by way of actual or potential voting rights over an entity, then such entity's results will be consolidated. The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single economic entity. InterCompany transactions and balances between Group companies are therefore eliminated in full.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. The results of acquired operations are included in the consolidated statement of comprehensive income from the date on which control is obtained. They are deconsolidated from the date control ceases.

All transactions and balances between Group companies are eliminated on consolidation, including unrealised gains and losses on transactions between Group companies. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from a Group perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Profit or loss and other comprehensive income of subsidiaries acquired or disposed of during the year are recognised from the effective date of acquisition, or up to the effective date of disposal, as applicable.

The Group attributes total comprehensive income or loss of subsidiaries between the owners of the parent and the non-controlling interests based on their respective ownership interests.

Subsidiaries

Subsidiaries are all entities (including single economic entities) where the Group has control over an investee, it is classified as a subsidiary. The Company controls an investee, if all three of the following elements are present:

- power over the investee
- exposure to variable returns from the investee and
- the ability of the investor to use its power to affect those variable returns

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

InterCompany transactions and balances between Group companies are eliminated.

Non-controlling interest

The total comprehensive income of non-wholly owned subsidiaries is attributed to owners of the parent and to the non-controlling interests in proportion to their relative ownership interests.
The consolidated balance sheets comprise the financial data of Envipco Holding N.V., Amersfoort, The Netherlands, and the following Group companies:

Envipco (UK) Limited – London, United Kingdom – 100%
Envipco Automaten GmbH, Westerkappeln, Germany – 100%
Envipco Pickup & Processing Services Inc., Delaware, U.S.A. – 99.85%
Environmental Products Corporation, Delaware, U.S.A. – 99.85%
Environmental Products Recycling Inc., Delaware, U.S.A. – 99.85%
Envipco A.S., Oslo, Norway – 100%
Envipco N.D. Inc., Delaware, U.S.A. – 99.85%
Envipco Sweden A.B., Borlange, Sweden – 100%
Envipco Hellas SA, Athens, Greece – 100%
Envipco France SA, Paris, France – 100%
Envipco Solutions SRL, Alba Iulia, Romania – 100%

Stichting Employees Envipco Holding (SEEH) is controlled by Envipco Holding N.V. The Board of Stichting Employees Envipco Holding consists of 2 members of the Management Board of Envipco Holding N.V. It is a foundation and its function is to administer an Employee Share Option scheme. Currently there are no activities of the Foundation.

The acquisition method of accounting is used to account for Business combinations by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the consideration transferred, amount of any non-controlling interest in the acquired entity, and acquisition date fair value of any previous equity interest in the acquired entity over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income.

Segment reporting

The segments are identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The Group considers geography and products as its main segments. Management measures geographical segment performance based on the segment's operating result. Similarly, the respective assets and liabilities are allocated to the geographical segments. This coincides with the Group's internal organisational and management structure and its internal financial management reporting system. A business segment is a group of operations engaged in providing services or products that are subject to risks and returns that are different from those of other business segments.

(d) Foreign currencies

Foreign currency transactions and foreign operations

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Euros, which is the Company's functional and presentation currency. The subsidiaries that are included in the consolidation have the Euro, US Dollars, UK Sterling Pounds, Romanian Leu, Swedish Kroner and

Norwegian Kroner as their functional currency. Transactions and cash flows in foreign currencies are translated into the functional currency at the rate prevailing when the transaction took place. Related exchange rate differences from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income.

Balance sheets of entities that have a functional currency other than the Euro are translated using the closing rates at each reporting date. The income statements of such entities are translated at the average rates during the period. The resulting exchange difference is recognised in the translation reserve. When a foreign entity is sold, such cumulative exchange difference is reclassified in the income as part of the gain or loss on sale. Translation gains and losses on inter-Company balances which are in substance a part of the investment in such Group Company are also recognised in other comprehensive income. Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(e) Revenue

General

Revenue arises mainly from the offering of pickup and processing, repairs and maintenance, sale of RVMs and leasing of RVMs. To determine whether to recognise revenue, the Group follows a 5-step process according to IFRS 15:

1. Identifying the contract with a customer
2. Identifying the performance obligations
3. Determining the transaction price
4. Allocating the transaction price to the performance obligations
5. Recognising revenue when/as performance obligation(s) are satisfied.

Revenue is recognised either at a point in time or over time, when (or as) the Group satisfies performance obligations by transferring the promised goods or services to its customers. When the Group acts as a principal revenue is recognised in the gross amount of consideration to which it expects to be entitled in exchange for the specified good or service transferred. When the Group acts an agent with a performance obligation to arrange for the provision of the specified good or service by another party, then revenue is recognised in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

The Group recognises contract liabilities for consideration received in respect of unsatisfied performance obligations and reports these amounts as other liabilities in the statement of financial position. Similarly, if the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due. In the USA, under the Bottle Bill deposit system, one of the subsidiary's billing includes mandatory deposits on the beverage containers which once collected, are passed through to the operators of redemption sites where Envipco machines are used. These pass-through amounts are included in receivables and payables and are not recognised as revenues.

Service revenue

The Group's primary service offerings include repairs and maintenance, and pickup and processing. These services are provided on a time and material basis or as a fixed-price contract with contract terms generally ranging from less than one year to three years.

Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered. Revenue from fixed-price contracts involving managed services is generally recognised in the period the services are provided using a straight-line basis over the term of the contract.

If circumstances arise that may change the original estimates of revenues, costs, or extent of progress toward completion, then revisions to the estimates are made. These revisions may result in increases or decreases in estimated revenues or costs, and such revisions are reflected in income in the period in which management becomes aware of the circumstances that give rise to the revision.

Sale of goods

Revenue from product sales is generally recognised when the product is delivered to the client and when there are no unfulfilled obligations that affect the client's final acceptance of the arrangement. Delivery does not occur until products have been shipped, risk of loss has transferred to the client and client acceptance has been obtained, client acceptance provisions have lapsed, or the Group has objective evidence that the criteria specified in the client acceptance provisions are either perfunctory or have been satisfied.

Leasing revenue

Revenues from product lease are recognised over the term of the lease on a straight-line basis, when classified as operational leases.

Cost of revenue

Cost of revenue includes all direct material and labour costs and those indirect costs related to contract performance, such as indirect labour, supplies, and depreciation costs. The Group performs ongoing profitability analysis of its service contracts in order to determine whether the latest estimates - revenues, costs and profits - require updating. If, at any time, these estimates indicate that a contract will be unprofitable, the entire estimated loss for the remainder of the contract is recorded immediately and presented as losses on contracts under provisions.

Finance income and finance costs

The Group's finance income and finance costs include:

— interest income;

— interest expense;

— the foreign currency gain or loss on financial assets and financial liabilities;

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

— the gross carrying amount of the financial asset; or

— the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

(f) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the income on a straight-line basis over the period of the lease.

Leases where the Group has transferred substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset or the present value of the minimum lease payment. The corresponding rental obligations, net of finance charges, are included in borrowings. The interest element of the finance cost is charged to the income over the lease period using the effective interest method. Assets acquired under finance leases are depreciated over the shorter of their useful life or the lease term.

The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated. The Group has disclosed accounting policies under both IFRS 16 (for the current period) and IAS 17 (for the comparative period presented) in order for users to understand the current period as well as comparative information and changes in significant accounting policies. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

At inception of an arrangement, the Group determines whether the arrangement is or contains a lease. The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property, the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

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

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Group recognises the lease payments associated with these leases on a straight-line basis over the lease term.

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the Group as a lessor in the comparative period were not different from IFRS 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

To classify each lease, the Group made an overall assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset. If this was the case, then the lease was a finance lease; if not, then it was an operating lease. As part of this assessment, the Group considered certain indicators such as whether the lease was for the major part of the economic life of the asset.

(g) Deferred tax

Deferred income tax is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a Business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available, against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes

The Group is subject to income tax in several jurisdictions and significant judgment is required in determining the provision for income taxes. During the ordinary course of business, there are transactions and calculations for which the ultimate tax determination is uncertain. As a result, the Company recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when, despite the Company's belief that its tax return positions are supportable, the Company believes that certain positions are likely to be challenged and may not be fully sustained upon review by tax authorities. The Company believes that its accruals for tax liabilities are adequate for all open audit years based on its assessment of many factors including past experience and interpretations of tax law. This assessment relies on estimates and assumptions and may involve a series of complex judgments about future events. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact income tax expense in the period in which such determination is made.

Deferred tax valuation

The Group recognises deferred tax assets for loss carry-forwards and deductible temporary differences, estimating the amount of future taxable profit that will be probable, against which the loss carry-forwards and deductible temporary difference can be utilised (see note 16).

(h) Intangible assets

All intangible assets have finite lives based on their economic use except for Goodwill. The intangible assets with finite lives are amortised using the straight-line method. The useful life is estimated at 7 years.

General and administrative expenses in the consolidated statement of comprehensive income (page 20) include the amortisation charge for intangible assets.

Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognised. Goodwill is tested annually for impairment. An impairment loss is recognised for the amount by which the goodwill of a cash generating unit exceeds its recoverable amount.

The recoverable amount is the higher of the cash generating unit’s fair value less costs to sell and value in use. Impairment testing of goodwill is performed at the level of the cash generating units, which is the smallest identifiable group of assets to independently generate cash flows. For the group, the smallest cash generating units comprise the activities of one single country. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Goodwill impairment testing

The Group is required to test, on an annual basis whether goodwill has suffered any impairment. The recoverable amount is determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. More information including carrying values is included in note 13.

Patents, licenses and concessions

The amortisation for the patents, licenses and concessions is included in general and administrative expenses (see page 20).

Patents are acquired intangible assets and are measured initially at cost on the acquisition date. They are amortised using the straight-line method based on the estimated useful life of 7 years.

Concessions relating to RVM distribution rights in the USA Midwest market are recognised and amortised over the life of the contract.

Research and development

Research and development expenses are included in general and administrative expenses (see page 20).
Research costs are recognised as an expense as incurred.

Development costs that are directly attributable to the design and testing of identifiable and unique products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the product so that it will be available for use;
- management intends to complete the product and use or sell it;
- there is an ability to use or sell the product;
- it can be demonstrated how the product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the product are available; and
- the costs attributable to the product during its development can be reliably measured.

The capitalised development cost is amortised when the asset becomes available for use. Once the asset is completely developed, it is amortised over the estimated useful life, which is 7 years.

- A legal reserve is made for capitalised development costs (see pages 21 & 23).

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Intangible assets that have not been put into use yet are tested for impairment at each reporting date irrespective of whether indicators of impairment exist. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The Group amortises its intangible assets, except for Goodwill, over the contracted term or their expected useful lives which are as follows:

Patents , licenses and concessions	7 years with the exception of a concession, whose useful life is less than 7 years and as such is being amortised over the contracted term.
Capitalised development costs	7 years

The capitalisation and potential impairments of internally generated research and development is amongst others based on estimates of future recovery.

(i) Property, plant and equipment

Property, plant and equipment are valued at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent expenditures that extend the asset's useful life are capitalised. Expenditures for repairs and maintenance are expensed when incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values, based on the estimated useful lives of such assets.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.
Assets under construction will be depreciated once the assets are complete and available for use.
Depreciation is based on the estimated useful lives of assets as follows:

Buildings	40 years
Plant and machinery	4-7 years
Vehicles and equipment	3-5 years

(j) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, and other highly liquid investments with original maturities of three months or less. The cash and cash equivalents are available on demand.

(k) Trade receivables

Trade receivables are recognised initially at fair value, which is generally the face value, and subsequently carried at amortised cost less provision for impairment. Impairment provisions for credit losses are recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Please refer to paragraph (s) Financial instruments initial recognition and subsequent measurement for further accounting policy elaboration in respect of the financial instruments.

(l) Inventory

The Group's US subsidiary uses a weighted average actual cost method (WAAC) for valuation of inventory. Product inventory is valued at the lower of cost or net realisable value based on a weighted average actual cost method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.
Spare parts inventory is valued at the lower of historical cost, or net realisable value. Appropriate consideration is given to excessive inventory levels, product deterioration and other factors when establishing the net realisable value.

Allowance for inventory obsolescence

All RVM parts inventory is valued at the lower of cost and net realisable value. For repaired parts inventory, the estimated value has been assessed at 50% of cost.

(m) Equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Amounts contributed by the shareholder(s) of the Company in excess of the nominal share capital, are accounted for as share premium. This also includes additional capital contributions by existing shareholders without the issue of shares or issue of rights to acquire shares of the Company.

Minority interests are valued at the proportionate share of third parties in the net value of the assets and liabilities of a consolidated entity, determined in accordance with the Company's measurement principles.

The Company records purchases of its own ordinary shares (treasury shares) under the cost method whereby the entire cost of the acquired shares is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity.

(n) Provisions

The group recognises provisions for liabilities of uncertain timing or amount including those for onerous leases, warranty claims, leasehold dilapidations and legal disputes. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date, discounted at a pre-tax rate reflecting current market assessments of the time value of money and risks specific to the liability. In the case of leasehold dilapidations, the provision takes into account the potential that the properties in question may be sublet for some or all of the remaining lease term.

(o) Trade creditors and other current liabilities

Trade payables and other short-term monetary liabilities are initially recognised at fair value and subsequently carried at amortised cost. Please refer to paragraph (s) Financial instruments initial recognition and subsequent measurement for further accounting policy elaboration in respect of the financial instruments.

(p) Employee benefits

Employee benefits are charged to the profit and loss account in the period in which the employee services are rendered and, to the extent not already paid, as a liability on the balance sheet. If the amount already paid exceeds the benefits owed, the excess is recognised as a current asset to the extent that there will be a reimbursement by the employees or a reduction in future payments by the Company.

The Group subsidiaries sponsor employee benefit plans which cover substantially all of their employees. Such plan is referred to as defined contribution. A defined contribution plan is a plan under which the Group companies pay fixed contributions into a separate entity. Under defined contribution plans, the Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, Envipco pays contributions to publicly or privately administered funds or insurance companies. Contributions are generally based on fixed amounts of eligible compensation and the cost for such plans is recognised based on employee service.

(q) Deferred income

In some of the Group's services contracts, the Group bills the client prior to performing the services resulting in the recognition of deferred income on the consolidated balance sheet. However, there are no contracts where deferred income is material to the financial statements.

(r) Financial instruments initial recognition and subsequent measurement

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred. A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets, except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

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

In the periods presented the corporation does not have any financial assets categorised as FVOCI.
The classification is determined by both:

- the entity's business model for managing the financial asset.
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within administrative expenses.

A financial asset and a financial liability are offset when the entity has a legally enforceable right to set off the financial asset and financial liability and the Company has the firm intention to settle the balance on a net basis, or to settle the asset and the liability simultaneously. If there is a transfer of a financial asset that does not qualify for derecognition in the balance sheet, the transferred asset and the associated liability are not offset.

Subsequent measurement of financial assets

(i) Financial assets at amortised cost
Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- they are held within a business model whose objective is to hold the financial assets and collect its contractual cash flows.
- the contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's cash and cash equivalents, trade and other receivables fall into this category of financial instruments as well as interest-bearing loans bonds that were previously classified as held-to-maturity under IAS 39.

(ii) Financial assets at fair value through profit or loss (FVTPL)
Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply. Assets in this category are measured at fair value with gains or losses recognised in profit or loss. The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

Impairment of financial assets

IFRS 9's impairment requirements use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. This replaces IAS 39's 'incurred loss model'. Instruments within the scope of the new requirements included loans and other debt-type financial assets measured at amortised cost and FVOCI, trade receivables, contract assets recognised and measured under IFRS 15 and loan commitments and some financial guarantee contracts (for the issuer) that are not measured at fair value through profit or loss.

Recognition of credit losses is no longer dependent on the Group first identifying a credit loss event. Instead the Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1') and;
- financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.
- '12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second category. Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

Trade and other receivables and contract assets

The Group makes use of a simplified approach in accounting for trade and other receivables as well as contract assets and records the loss allowance as lifetime expected credit losses. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial instrument. In calculating, the Group uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix. The Group assesses impairment of trade receivables on a collective basis. As they possess shared credit risk characteristics they have been grouped based on the days past due.

Classification and measurement of financial liabilities

As the accounting for financial liabilities remains largely the same under IFRS 9 compared to IAS 39, the Group's financial liabilities were not impacted by the adoption of IFRS 9. However, for completeness, the accounting policy is disclosed below.

The Group's financial liabilities include borrowings, trade and other payables. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method except for derivatives and financial liabilities designated at FVTPL, which are carried subsequently at fair value with gains or losses recognised in profit or loss (other than derivative financial instruments that are designated and effective as hedging instruments).

All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income.

(s) Fair values

The management assessed that cash and cash equivalents, trade and other receivables, trade and other payables, and other current liabilities approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of the interest-bearing loans and borrowings is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate borrowings are evaluated by the Group based on parameters such as interest rates and the risk characteristics of the financed project.

The fair value of the interest-bearing loans and borrowings is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities, being sensitive to a reasonably possible change in the forecast cash flows or the discount rate. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

(t) Critical accounting estimates and judgments

In preparing these consolidated financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively. Key judgements and accounting estimates relate to the following:

— Note 11 and 16 – recognition of deferred tax assets: availability of future taxable profit against which tax losses carried forward can be used;

— Note 13 and 14 – useful life of intangible and tangible fixed assets, including impairment testing if applicable;

— Notes 22 and 45 – recognition and measurement of provisions and contingencies: key assumptions about the likelihood and magnitude of an outflow of resources;

— Note 17 – measurement of provision for obsolescence;

— Note 18 – measurement of ECL allowance for trade receivables.

(4) Capital management

The Group's capital consists of its net equity and long-term loans. Management monitors and assesses the capital requirements for the Group and ensures that enough funding is available to meet the working capital requirements and also for the future business development. To raise funding, the Group considers both committed credit lines and equity contributions.

One of the Group's subsidiaries has to comply with certain financial covenants under its loan agreement, details of which are given in note 21. The Group's current funding requirements have been met from operations and from the committed credit lines.

(5) Financial risk management

The Group has exposure to Credit, Liquidity and Market risks on the financial instruments used by it. The Board of Directors has the overall responsibility to monitor and manage these risks.

Credit risk

Credit risk arises from the possibility of asset impairment occurring because counterparties are not able to meet their obligations in transactions mainly involving trade receivables and can increase due to COVID-19 outbreak and impact on the global economy. The Group has exposure to credit risk and is dependent on three major customers (see table below) for its receivables, in 2019 for 32% of its receivables and in 2018, 28% of receivables. In the normal course of business, the Group provides credit to clients, provides credit evaluations of these clients, and maintains an impairment provision for credit losses. Cash and cash equivalents are held with reliable counterparties.

	2019 Accounts receivable	2018 Accounts receivable
Concentration of credit risk		
Customer 1	15%	15%
Customer 2	9%	9%
Customer 3	8%	4%
Others	68%	72%
Total	**100%**	**100%**

USA operations manage its gross receivables through a system of deposit accounting where Envipco acts as a clearing house for services provided and not on RVM sales but disburses payable funds to customers only after collections have been made from its receivables. European and USA operations have receivables from RVM sales, which are managed closely for collections.

The credit rating of customer 1 is determined by Fitch at AA.

The carrying amount of financial assets represents the maximum credit exposure. This maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

in EUR thousands	€'000 Current	€'000 31-60 Days	€'000 61-90 Days	€'000 >90 Days	€'000 TOTAL
2019					
Europe	660	-	-	-	660
United States	6,301	1,269	124	126	7,820
Total	**6,961**	**1,269**	**124**	126	**8,480**
2018					
Europe	1,101	-	-	-	1,101
United States	5,939	1,471	209	123	7,742
Total	**7,040**	**1,471**	**209**	**123**	**8,843**

Management manages credit risk by reviewing the creditworthiness of counterparties on a regular basis and will set credit limits. No credit insurance is taken-out. Due to the limited number of customers the Group determines the ECLs of trade receivables on an individual basis.

Liquidity risk

Liquidity risk arises from the possibility that the Group may encounter difficulty in meeting its obligations as they fall due or inability to draw under re-finance credit facilities.

The Group's policy is to ensure, as far as possible, that it will have sufficient liquidity to meet its obligations in a timely manner. The executive directors follow liquidity risk management focused on maintaining sufficient cash, enforcing strict credit policy and the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, the Group aims to maintain flexibility in funding by keeping committed credit lines available.

Liquidity is managed closely by pursuing receivable collections in the USA and also by keeping the committed credit lines in place. The following are the Group's contractual maturities of financial liabilities based on contractual undiscounted payments including short term leases:

in EUR thousands	€'000 In 1 Year	€'000 1-2 Years	€'000 2-5 Years	€'000 > 5 Years	€'000 TOTAL
2019					
Borrowings	1,171	1,521	186	1,268	4,146
Lease commitments	366	304	84	-	754
Trade creditors	6,569	-	-	-	6,569
Total liabilities	**8,106**	**1,825**	**270**	**1,268**	**11,469**
2018					
Borrowings	1,419	1,549	134	1,332	4,434
Trade creditors	6,406	-	-	-	6,406
Total liabilities	**7,825**	**1,549**	**134**	**1,332**	**10,840**

Market risk

Market risk arises from the fact that the value of financial instruments may be positively or negatively affected by fluctuating prices on the financial markets. Market risk includes currency risk, fair value interest rate risk, and price risk.

- **Currency risk**
  Currency risk is the risk that the value of a financial instrument will fluctuate due to exchange rate fluctuations. Exposure to currency risks arises primarily when receivables and payables are denominated in a currency other than the operating Company's local currency. In addition, the Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. The Group manages its currency risk by closely monitoring the currency fluctuations and does not hedge its currency risk.
  A 5% strengthening of US Dollar against the Euro would have increased the profit after tax by €77,000 (2018: €46,000) and would result in net increase in equity of €77,000 (2018: €46,000) and a 5% decline in US Dollar against the Euro would have had an equal but opposite effect on the basis that all other variables remain constant.

- **Interest rate risk**
  The Group's interest rate risk arises from selected long-term borrowings. Such borrowings issued at variable rates expose the Group to cash flow interest rate risk. The Group tries to minimise its interest rate by negotiating both fixed and variable interest rates for the borrowings. The Group has no interest rate swaps to hedge interest rate risk. The Group evaluated its exposure to interest rate risk based on its long-term debt (see note 21) and concluded that a reduction in interest rate by 0.25% would have increased the profit after tax by €7,000 (2018: €7,000) and an increase in interest rate by 0.25% would have decreased the profit after tax by €7,000 (2018: €7,000).

- **Price risk**
  The Group does not have an exposure to price risk.

Financial instruments – fair values and risk management

The Company has no financial assets and financial liabilities that are measured at fair value. The fair value for financial assets and financial liabilities not measured at fair value is a reasonable approximation of fair value except for borrowings that are further explained in note 21.

Further, for the current year the fair value disclosure of lease liabilities is also not required.

(6) Segment information

Envipco considers geography as its main segments. Management measures geographical segment performance based on the segment's profit. Similarly, the respective assets and liabilities are allocated to the geographical segments. The segments are identified on the basis of internal reports about components of the entity that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess its performance. The Group's main continuing operations relate to its core activity of Recycling. This activity has a single main operating segment – RVMs. The RVM business segment includes operations in the USA and Europe due to RVM sales, and services. The other unallocated amounts include the Holding Company and rest of the non-active Group entities. Segment information for continuing operations is presented by geographical areas where a segment is based.

(6) Segment information (continued)

Segment information of the reportable segments is detailed below:

in EUR thousands	2019				2018			
	Europe	North America	Rest of World	Total	Europe	North America	Rest of World	Total
Revenues								
Recycling – RVM								
Sale of goods	3,171	3,646	-	6,817	2,756	4,310	-	7,066
Service revenue	427	19,243	-	19,670	306	18,850	-	19,156
Leasing revenue	-	9,764	-	9,764	-	9,158	-	9,158
Total	**3,598**	**32,653**	**-**	**36,251**	**3,062**	**32,318**	**-**	**35,380**
Total assets								
Recycling – RVM	5,522	27,595	-	33,117	3,700	28,216	-	31,916
Other unallocated amounts	6,829	-	-	6,829	8,086	-	-	8,086
Total	**12,351**	**27,595**	**-**	**39,946**	**11,786**	**28,216**	**-**	**40,002**
Segment Profit (loss)								
Recycling – RVM	(2,805)	3,548	-	743	(1,000)	4,858	-	3,858
Other unallocated amounts	(2,622)	-	-	(2,622)	(2,004)	-	-	(2,004)
Total	**(5,427)**	**3,548**	**-**	**(1,879)**	**(3,004)**	**4,858**	**-**	**1,854**
Total liabilities								
Recycling – RVM	1,339	13,572	-	14,911	650	12,218	-	12,868
Other unallocated amounts	650	-	-	650	1,135	-	-	1,135
Total	**1,989**	**13,572**	**-**	**15,561**	**1,785**	**12,218**	**-**	**14,003**
Property, Plant & Equipment & Intangibles Additions								
Recycling – RVM	289	2,840	-	3,129	96	2,231	-	2,327
Other unallocated amounts	1,364	-	-	1,364	1,469	-	-	1,469
Total	**1,653**	**2,840**	**-**	**4,493**	**1,565**	**2,231**	**-**	**3,796**
Depreciation & Amortisation								
Recycling – RVM	21	2,467	-	2,488	27	2,309	-	2,336
Other unallocated amounts	1,187	-	-	1,187	1,028	-	-	1,028
Total	**1,208**	**2,467**	**-**	**3,675**	**1,055**	**2,309**	**-**	**3,364**

The Group initially applied IFRS 16 at 1 January 2019, which requires the recognition of right-of-use assets and liabilities for lease contracts that were previously classified as operating leases. As a result, the Group recognised €911,000 of right-of-use-assets and €911,000 of lease liabilities from those lease contracts. The assets and liabilities are included in the Recycling - RVM segments under Europe and North America as at 31 December 2019. The Group has applied IFRS 16 using the modified retrospective approach, under which comparative information is not restated.

The revenues and non-current assets of the Company's country of domicile i.e. Netherlands were respectively €0,000 (2018: €0,000) and €5,922,000 (2018: €5,777,000).

See table above for Revenue details where contract (lease) revenues and performance obligations for sale of goods have been disclosed as part of the Group's revenue recognition policies. Contract balances, if any, at year end are included in trade receivables (see note 18).

(7) Audit fees

The fee paid to the Group's auditors for the following services relating to the calendar year is included in general expenses and can be specified as follows:

	KPMG Accountants N.V.	Other KPMG Network	Total 2019	Grant Thornton Accountants en Adviseurs B.V.	Other Grant Thornton Network	Total 2018
	€'000	€'000	€'000	€'000	€'000	€'000
Audit fee of financial statements	145	129	274	105	154	259
Other audit engagement	-	-	-	-	-	-
Tax-related advisory services	-	-	-	-	-	-
Other non-audit services	-	-	-	-	-	-
Total	**145**	**129**	**274**	**105**	**154**	**259**

KPMG Accountants N.V. is the auditor in 2019 and Grant Thornton Accountants en Adviseurs B.V., was the auditor in 2018 to the Company and its subsidiaries.

(8) Other income/(expenses)

	2019	2018
	€'000	€'000
Other income	26	651
Total	**26**	**651**

Other income in 2019 amounted to €26,000 (2018: €31,000); and a one-time contract settlement of €620,000 in 2018.

(9) Employee benefit expense

	2019	2018
	€’000	€’000
Salaries and wages	*11,943	9,549
Other employee benefits	1,268	1,356
Social Security expenses	882	706
Pension expenses	54	52
Total	**14,147**	**11,663**
Average number of employees		
North America		
Production/Supply chain	28	28
Research and Development	11	11
Sales and Service	80	77
General Administration	27	27
Management	4	4
Europe		
Production/Supply chain	14	12
Research & Development	7	7
Sales & Service	7	5
General Administration	4	7
Management	4	2
Total	**186**	**180**

**Including €1,070,000 of severance for the former CEO*

The expense is included in the following line items in the financial statements:

	2019	2018
	€’000	€’000
Cost of revenue	4,896	4,172
General and administrative expenses	6,141	4,688
Selling and distribution expenses	1,031	1,009
Research and development expenses	2,079	1,794
Total employee benefit expense	**14,147**	**11,663**

(9) Employee benefit expense (continued)

Remuneration of the Management Board

The remuneration of the Management Board charged to the result in 2019 was €1,930,000 (2018: €624,000), which and can be specified as follows:

in EUR thousands	Fixed Salary/fee	Variable compensation	Fringe benefits	Pension cost	Extraordinary compensation	Total
2019						
B. Santchurn*	409	274	36	4	1,070	1,793
G. Garvey *	54	-	-	-	-	54
C. Crepet	20	-	-	-	-	20
T.J.M. Stalenhoef	53	-	-	-	-	53
G. Lefebvre	10	-	-	-	-	10
A. Bouri	-	-	-	-	-	-
D. D'Addario	-	-	-	-	-	-
Total	**546**	**274**	**36**	**4**	**1,070**	**1,930**
2018						
B. Santchurn*	371	110	26	3	-	510
G. Garvey*	51	-	-	-	-	51
C. Crepet	11	-	-	-	-	11
T.J.M. Stalenhoef	42	-	-	-	-	42
G. Lefebvre	10	-	-	-	-	10
A. Bouri	-	-	-	-	-	-
D. D'Addario	-	-	-	-	-	-
Total	**485**	**110**	**26**	**3**	**-**	**624**

**B. Santchurn and G. Garvey are Executive Directors, Other members of the Board are Non-Executive Directors.*

The salary/fee of B. Santchurn consists of a fixed salary of €449,000 (2018: €400,000) and a bonus of €274,000 (2018: €110,000). In 2019 a severance payment of €1,070,000 was included. The salary/fee of G. Garvey consists of €54,000 (2018: €51,000). Non-executive Directors obtain a fixed compensation based on time spent and amounts charged.
A. Bouri and D. D'Addario did not receive compensation.

A loan to Mr. Christian Crepet, a director, of €20,000 given in 2012 with a balance of €1,317 on 31 December 2018 was repaid with interest at Euribor plus 1%, in 2019. A. Bouri, the majority shareholder, received €1,000 (2018: €3,000) as interest on the loan due him from the Company for an amount of €100,000 which was repaid during the year. See note 26 for related party transactions.

(10) Finance expense and income

The financial expenses are fully in respect of borrowings and financial lease commitments. Financial income relates to interest received.

	2019	2018
	€'000	€'000
Interest and similar expenses	(273)	(226)
Exchange losses	-	(43)
Interest and similar income	15	3
Exchange gains	78	-
Net finance (cost) and or income	**(180)**	**(266)**

(11) Income taxes

Effective tax rate

Envipco operates in several jurisdictions with varied local statutory income tax rates. This causes a difference between the average statutory income tax rate and The Netherlands tax rate of 25%. The following table reconciles income taxes based on the Group's weighted average statutory income tax rate and the Group's income tax benefit from continuing operations:

in EUR thousands	2019		2018	
		€'000		€'000
Profit/(loss) before tax		(2,761)		1,919
Taxation (charge)/credit – statutory rate	25%	690	25%	(480)
Tax (charge) credit for different statutory tax rates on foreign subsidiaries		198		-
Non-deductible expenses				
Effect of unused losses and temporary differences of a prior year for which previously no deferred tax asset had been recognised *		1,565		480
Effect of current year losses for which no deferred tax asset has been recognised		(1,372)		-
State tax		(199)		(65)
Effective income tax	**32%**	**882**	**-3%**	**(65)**

Effect of unused losses and temporary differences of a prior year for which previously no deferred tax asset (DTA) had been recognised is a result of management's estimate that these assets will be recovered in the near future. No deferred tax assets have been recognised yet for losses in most of the European businesses that are starting up.

(11) Income taxes (continued)

Current and deferred tax income/ (expense)

in EUR thousands	2019	2018
	€'000	€'000
Current		
USA	(199)	(65)
Netherlands	-	-
Total	(199)	(65)
Deferred		
USA	1,081	-
Netherlands	-	-
Total	**882**	**-**

None of the items of other comprehensive income is included in income taxes. See note 16.

The deferred tax income was favourably impacted by a credit of approximately €1.1m in 2019 due to recognition of deferred tax asset for previously unrecognised US losses in 2019. No deferred tax asset has been recognised for losses in the international business.

Available tax losses totaling €21,292,000 (2018: €25,525,000), expire as follows: €2,840,000 in 2021, €3,585,000 in 2022, €1,344,000 in 2023, €2,574,000 in 2024, €8,389,000 from 2025 through 2031, €1,384,000 in 2034 and €1,176,000 in 2035. Tax losses where no deferred tax has been recognised amounted to €7,788,000 (2018: €16,572,000).

(12) Earnings per share

The numerator for both basic and fully diluted net result per ordinary share (earnings per share or EPS) is net result attributable to holders of ordinary shares. The denominator for basic EPS is the number of ordinary shares outstanding during the year, excluding ordinary shares held as treasury shares. The fully diluted EPS is same as the basic EPS.

The net result per ordinary share has been calculated according to the following schedule:

	2019	2018
	€'000	€'000
	Total Operations	Total Operations
Numerator		
Earnings/(loss) used in basic and diluted EPS	**(1,879)**	**1,854**
Denominator		
	'000	'000
Weighted average number of shares used in basic and diluted EPS	**4,098**	**3,982**

Basic and diluted earnings per share for 2019 have been calculated using the weighted-average number of current ordinary shares of 4,097,607 and 3,981,744 for 2018.

(13) Intangible Assets

in EUR thousands	Goodwill	Patents, Licenses & Concessions	Development Costs	Total
At 1 January 2018				
Cost	148	1,096*	7,398*	8,642*
Accumulated amortisation	-	(801)*	(2,293)*	(3,094)*
Net carrying amount	**148**	**295**	**5,105**	**5,548**
Changes to net carrying amount in 2018				
Additions	-	87	1,401	1,488
Disposals	-	(3)	-	(3)
Amortisation	-	(74)	(977)	(1,051)
Currency translation differences	7	27	-	34
Total changes in 2018	**7**	**37**	**424**	**468**
At 31 December 2018				
Cost	155	1,207*	8,799*	10,161*
Accumulated amortisation and impairment	-	(875)*	(3,270)*	(4,145)*
Net carrying amount	**155**	**332**	**5,529**	**6,016**
Changes to net carrying amount in 2019				
Additions	-	53	1,282	1,335
Amortisation	-	(76)	(1,111)	(1,187)
Currency translation differences	3	(7)	-	(4)
Total changes in 2019	**3**	**(30)**	**171**	**144**
At 31 December 2019				
Cost	158	1,253	10,081	11,492
Accumulated amortisation and impairment	-	(951)	(4,381)	(5,332)
Net carrying amount	**158**	**302**	**5,700**	**6,160**

All development cost is internally generated.

See note 21 for security of assets.

*The 2018 amounts for costs and accumulated amortisation of patents, licenses and development costs have been restated for comparative purposes by €1,124,000 because costs that were fully amortised that had no future economic benefits had not been removed in previous years. This did not have an impact on the 2018 net carrying amount.

(13) Intangible Assets (continued)

The expense is included in the following line items in the financial statements:

	2019	2018
	€'000	€'000
General and administrative expenses	1,187	1,051
Total amortisation and depreciation expenses	**1,187**	**1,051**

Goodwill

Goodwill as per 31 December 2019 and 2018 relates to goodwill of one Cash Generating Unit in the RVM segment in the US, which was tested for any impairment, based on its value in use, by using present value of discrete cash flows for next three years and the present value of the terminal cash flow with the following assumptions: pre-tax WACC discount rate of 7.94%, working capital requirement at 10% of revenue and terminal cash flow growth rate of 2.5%. Sensitivities related to the value in use calculation would imply that a 1% increase in the discount rate or using a 0% growth rate would not have resulted in an impairment.

Patents, licenses & concessions

All concessions are being amortised with a useful life of 7 years.

Development costs

All capitalised development costs relate to internally developed assets in respect of new product range namely Quantum Indoor, e-Portal, Quantum Modular and New Recognition Systems for the existing and new markets. All materials, labour and overhead costs directly attributable to these projects have been capitalised. €1,282,000 (2018: €1,401,000) of the development costs was capitalised in 2019. Fully developed assets are amortised over their expected useful lives, which is 7 years, evaluated on a periodic basis. The largest individual asset included in the development cost has a book value of €2,871,000 due to consolidation of similar projects (2018: €1,240,000).

Key projects under development during 2019 included New Recognition System-Single Feed, New Recognition System-Bulk Feed and Quantum Modular Core.

(14) Property, plant and equipment

in EUR thousands	Reverse Vending Machines	Land & Buildings	Plant & Machinery	Vehicles & Equipment	Total
At 1 January 2018					
Cost	22,033	2,080	676	1,282	26,071
Accumulated depreciation	(15,088)	(451)	(379)	(969)	(16,887)
Net carrying amount	**6,945**	**1,629**	**297**	**313**	**9,184**
Changes to net carrying amount in 2018					
Additions	2,089	-	97	121	2,307
Disposals/transfers to inventory	(422)	-	6	(15)	(431)
Depreciation	(2,026)	(55)	(132)	(102)	(2,315)
Currency translation	320	76	(4)	27	419
Total changes in 2018	**(39)**	**21**	**(33)**	**31**	**(20)**
At 31 December 2018					
Cost	24,020	2,156	775	1,415	28,366
Accumulated depreciation	(17,114)	(506)	(511)	(1,071)	(19,202)
Net carrying amount	**6,906**	**1,650**	**264**	**344**	**9,164**
At 1 January 2019	**6,906**	**1,650**	**264**	**344**	**9,164**
Recognition of right-of-use asset on initial application of IFRS 16	-	291	219	401	911
Adjusted balance as at 1 January 2019	**6,906**	**1,941**	**483**	**745**	**10,075**
Changes to net carrying amount in 2019					
Additions	1,765	227	210	84	2,286
Disposals/transfers to inventory	(407)	3	(49)	(16)	(469)
Depreciation	(2,188)	(61)	(128)	(111)	(2,488)
Currency translation	144	29	6	6	185
Reclassification cost	79	-	-	-	79
Total changes in 2019	**(607)**	**198**	**39**	**(37)**	**(407)**
At 31 December 2019					
Cost	25,601	2,706	1,161	1,890	31,358
Accumulated depreciation	(19,302)	(567)	(639)	(1,182)	(21,690)
Net carrying amount	**6,299**	**2,139**	**522**	**708**	**9,668**

IFRS 16 right of use assets recognised at 1 January 2019 included investments in Land & Buildings, Plant & Machinery and Vehicles & Equipment.

See note 21 for security of assets.

(14) Property, plant and equipment (continued)

The expense is included in the following line items in the financial statements:

	2019	2018
	€'000	€'000
Cost of revenue	2,228	2,075
General and administrative expenses	245	226
Selling and distribution expenses	11	7
Research and development expenses	4	7
Total amortisation and depreciation expenses	**2,488**	**2,315**

(15) Financial Assets

	2019	2018
	€'000	€'000
Schedule of movement of deposits with vendors		
At beginning of period	349	72
Additions	-	277
Releases	(141)	-
At end of period	**208**	**349**

(16) Deferred tax assets

€'000	31 December 2019					
	Net balance at 31 Dec 2018	(Charge)/ credit profit & loss	(Charge)/ credit equity	Net balance	Deferred tax assets	Deferred tax liabilities
Property, plant and equipment	(675)	(413)	(14)	(1,102)	-	(1,102)
Inventory	555	(137)	(5)	413	413	-
Tax losses carried forward	1,914	1,531	50	3,495	3,495	-
Other	26	99	3	128	128	-
Total	**1,820**	1,080	34	**2,934**	4,036	(1,102)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relates to the same fiscal authority. The deferred tax liabilities are offset against deferred tax assets in the same fiscal unity.

(16) Deferred tax assets (continued)

Current and deferred tax income/(expense)

The deferred tax credit was recognised during the year due to the tax re-evaluation of future profits of a Group's subsidiary and is further explained in note 11.

(17) Inventory

	2019	2018
	€'000	€'000
Finished Goods	3,293	1,803
Raw materials and parts	8,992	8,004
Work in progress	42	477
Provisions for obsolescence	(1,986)	(1,759)
Total	**10,341**	**8,525**

In 2019 inventory usage amounting to €19,274,000 (2018: €12,879,000) has been included in the cost of revenue.

Finished goods are valued at lower of cost and net realisable value. Cost includes material cost, direct labour and overheads. Raw material and parts are valued at lower of cost and net realisable value. Cost includes purchase cost and cost of bringing the part to its present location. Work in progress is valued including direct material cost and a proportion of direct labour and overheads.

Estimates of net realisable value of inventory are based on the most reliable evidence available at the time the estimates are made. The carrying amount of the inventory carried at fair value less costs to sell is nil. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. As such, estimates are continuously evaluated and it is common that in the normal course of business, circumstances that previously caused inventories to be written down below cost no longer exist resulting in reversals of write-downs.

Schedule of movement of provision for obsolescence

	2019	2018
	€'000	€'000
Beginning of period	1,759	1,699
Addition to/release of provision	192	(20)
Exchange gains/(losses)	35	80
End of period	**1,986**	**1,759**

The increase/ (decrease) in provisions relating to raw materials is affected through cost of revenue. Total book value of items included in the provision is €3,972,000 (2018: €3,518,000).

(18) Trade and other receivables

	2019	2018
	€'000	€'000
Trade receivables	8,480	8,843
Other receivables	457	285
Prepaid expenses	347	129
Loan receivables - affiliate	676	764
Total	**9,960**	**10,021**

A loan receivable to an affiliate under common control of the majority shareholder as of 31 December 2019 amounted to €676,000 (2018: €764,000), with an interest rate of Euribor plus 2.5% and is repayable on 31 December 2020. Other receivables include a €50,000 (2018: €50,000) loan to a German subsidiary employee

Estimates of the recoverability of trade receivables are based on the most reliable evidence available at the time the estimates are made. As these estimates are continuously evaluated, it is common that in the normal course of business, circumstances that previously caused trade receivables to be impaired no longer exist resulting in reversals of impairment charges. Trade receivables are shown net of bad debt provisions of €299,000 and €777,000 at the end of years 2019 and 2018 respectively.

Schedule of movement of bad debts

	2019	2018
	€'000	€'000
Beginning of period	777	600
Additions	-	102
Release/utilisation of provisions	(494)	(117)
Currency translation adjustment	16	192
End of period	**299**	**777**

(19) Cash and cash equivalents

	2019	2018
	€'000	€'000
Cash at bank and in hand	675	4,107
Cash and cash equivalents	**675**	**4,107**

(20) Shareholders' equity

Share Capital

Authorised and issued share capital

	Ordinary Shares	
	2019	**2018**
Number of authorised shares	8,000,000	8,000,000
Authorised share capital	€4,000,000	€4,000,000
Number of outstanding shares on 1 January	4,097,607	3,837,607
Number of outstanding shares on 31 December	4,097,607	4,097,607
Issued share capital on 31 December	€2,048,803.50	€2,048,803.50
Nominal value	€0.50	€0.50

During 2018 the Company issued 260,000 ordinary shares via private placement.

Share premium reserve

For full detailed movements in share premium reserve please refer to the consolidated statement of changes in equity on page 23.

Legal reserve

Movement in legal reserve is in respect of the capitalised development costs of €171 (see note C for Separate Financial Statements).

Retained earnings

At the Company's Annual General Meeting of the Shareholders it will be proposed to include the 2019 loss to retained earnings.

Translation reserve

Group entities, whose functional currency is other than Euro, the Group's reporting currency, are translated using closing rates for balance sheets and average rates for income statements. The resulting difference is recognised as translation reserve in equity and is non-distributable.

(21) Non-current liabilities

	2019	2018
	€'000	€'000
Borrowings	2,975	3,014
Total	**2,975**	**3,014**

	2019	2018
	€'000	€'000
Lease commitments	366	-
Total	**366**	**-**

	2019	2018
	€'000	€'000
Other liabilities	120	220
Total	**120**	**220**

Lease commitments arose as a result of having recognised IFRS 16 right-of-use assets.

Other non-current liabilities include a loan of €120,000 (2018: €120,000) payable to Mr. Gregory Garvey, a related party. There are no conditions, interest or maturity period for this loan.

Borrowings

Environmental Products Corporation (EPC) has borrowing facility from a third-party lender for $6,457,000. The following loans have been drawn:

	Nominal interest rate	Year of maturity	Face Value	Carrying amount
Line of credit (LOC)	5.5%	2021	$3,000	€1,068
Term loan	FHLB classic rate plus 2.5%	2020	$2,175	€203
Mortgage facility	5.5%	2024	$2,240	€1,614
Term loan	FHLB 48/48 rate plus 2.5%	2021	$4,000	€1,261

The line of credit (LOC) of $3,000,000 is capped based on eligible accounts receivables and repayable after 2 years with interest, $2,175,000 as a Term Loan, repayable within 4 years with interest at FHLB classic rate plus 2.5% and $2,240,000 as a Mortgage facility, repayable (based on a 20 year amortisation) within 10 years including interest at 5.50% with a balloon payment in year 2024. A loan of $4,000,000 was secured in May 2017 repayable over 4 years with interest at FHLB 48/48 amortising rate plus 2%. The LOC is renewable annually for a term of 2 years. These loans are collateralised by a fixed and floating charge on all assets of the USA subsidiary and guaranteed by the Company. Net borrowing costs deducted were €1,000 (2018: €4,000).

The debt covenants for the USA subsidiaries have been met during the year and in 2018.

(21) Non-current liabilities (continued)

Schedule of borrowings movement

	2019	2018
	€'000	€'000
Beginning of period	4,434	5,498
Increase	1,072	-
(Decrease)	(1,450)	(1,359)
Translation effect	90	295
End of period	**4,146**	**4,434**

Future payments under long term borrowings

	2019	2018
	€'000	€'000
Current	1,171	1,420
Due between 1 to 5 years	2,975	3,014
Total borrowings	**4,146**	**4,434**

Fair value of borrowings

	Nominal interest rate	2019 Carrying amount	Fair Value	2018 Carrying amount	Fair value
Line of credit (LOC)	5.5%	€1,068	€1,068	€0	€0
Term loan	FHLB classic rate plus 2.5%	€203	€202	€674	€672
Mortgage facility	5.5%	€1,614	€1,697	€1,654	€1,761
Term loan	FHLB 48/48 rate plus 2.5%	€1,261	€1,246	€2,106	€2,136
Total		**€4,146**	**€4,213**	**€4,434**	**€4,569**

Increases and decreases reconcile to cash flow statement on page 22. For lease liabilities reference is made to note 25.

(22) Provisions

	2019	2018
	€'000	€'000
Provisions	314	77
Total	**314**	**77**

Movement of warranty provisions

These are required by our German subsidiary for warranty for the repair and maintenance of compactor sales and are adequate for expected usage.

	2019	2018
	€'000	€'000
Beginning of period	77	236
Additions	176	24
Release/utilisation	-	(183)
End of period	**253**	**77**

Movement of other provisions

	2019	2018
	€'000	€'000
Beginning of period	-	-
Additions	61	-
Release/utilisation	-	-
End of period	**61**	**-**

(23) Employee benefit plans

Group companies provide pension benefits for their employees. The way these benefits are provided varies according to the legal, fiscal and economic conditions of each country. Such benefits are provided under defined contribution plans. For the year ended 31 December 2019, expenses relating to defined contribution plans amounted to €54,000 (2018: €52,000).

(24) Accrued expenses

	2019	2018
	€'000	€'000
Payroll and vacation accruals	1,580	348
Other accrued expenses	1,860	2,206
Total	**3,440**	**2,554**

Severance accrual of €1,070,000 for the former CEO has been included in payroll and vacation accruals in 2019.

(25) Commitments and contingencies

The future minimum lease payments under non-cancellable operating leases as of 31 December 2018 were as follows:

	2018
	€'000
Within 1 year	369
Between 2 to 5 years	970
Total	**1,339**

The leases relate to plant and equipment, office machines and vehicles. Rent expenses for the year ended 31 December 2018 were approximately €553,000.

The future minimum lease receivable under non-cancellable RVM operating leases as of 31 December 2019 and 2018 were as follows:

	2019	2018
	€'000	€'000
Within 1 year	2,328	2,823
Between 2 to 5 years	2,982	4,033
Total	**5,310**	**6,856**

Lease revenues from RVMs for the year ended 31 December 2019 were approximately €4,221,000 (2018: €3,928,000).

Legal proceedings

Several Group companies are parties to various legal activities which are incidental to the conduct of their businesses.

During April 2016, Envipco was granted a patent by the German patent office after filing for a utility model in 2007. This specific IP covers a method for how security labels are created and interpreted; which we believe is being allegedly used by several parties in Germany in compliance with the German deposit system. Envipco is currently seeking enforcement proceedings against potential infringers. The Company previously received an unfavourable ruling on our patent being litigated. We have since reviewed the German courts report and have now filed an appeal of the court decision. No reliable estimate can be made of the outcome at this moment and no receivable has been recognised. However, the Company remains positive about the outcome.

(26) Related party transactions

Transactions and relations with an affiliate are explained in note 18. €1,000 of interest was charged to the income statement on the average outstanding loans payable in 2019 with interest at euribor plus 2% (2018: €3,000) to Mr. Alexandre Bouri, the majority shareholder. A payable to Mr. Bouri at year end was €0 (2018: €100,000).

The balance receivable at year end from an affiliate under common control of the majority shareholder was €676,000 (2018: €764,000) with interest at euribor plus 2.5% and repayable on 31 December 2020.

Other liabilities include a loan of €120,000 (2018: €120,000) payable to Mr. Gregory Garvey, a related party (See note 21). There are no conditions, interest or maturity period for this loan.

The key management personnel comprised of the Management Board (refer to Note 9 for further details regarding transactions with related parties as well). A loan was granted to Mr. Christian Crepet, a director, in 2012 for €20,000 with a balance of €1,317 was repaid with interest at Euribor plus 1% during the year ended 31 December 2019.

Post balance sheet events

The Company’s US subsidiary obtained incremental financing in 2020 from a new term loan of €5.40m and funding under the Coronavirus Aid, Relief, and Economic Security (CARES) Act’s Paycheck Protection Program €1.60m and has sufficient liquidity.

On 11 March 2020, the World Health Organisation declared the outbreak of coronavirus (COVID-19) pandemic. For the consideration of the impact we refer to the going concern paragraph.

Separate Statement of Financial Position

(After appropriation)

in EUR thousands	Note	2019	2018
Assets			
Fixed assets			
Intangible assets	(C)	5,922	5,777
Financial fixed assets	(D)/(H)	22,966	20,228*
		28,888	**26,005**
Current assets			
Trade and other receivables	(E)	838	831
Cash and cash equivalents	(F)	174	1,476
Total assets		**29,900**	**28,312**
Equity and liabilities			
Shareholders' equity	(B)/(G)		
Share capital		2,049	2,049
Share premium		51,703	51,874
Translation reserve		4,093	3,829
Legal reserve		5,700	5,529
Retained earnings		(39,192)	(37,309)
		24,353	**25,972**
Non-current liabilities			
Loans from subsidiaries	(I)	2,909	1,397
Other non-current liabilities	(J)	757	220*
Current liabilities			
Creditors and other liabilities	(K)	1,881	723*
Total equity and liabilities		**29,900**	**28,312**

*Amounts have been restated for comparative purposes, refer to note A.

The notes on pages 68 to 75 are an integral part of these separate financial statements.

Separate Statement of Profit or Loss

in EUR thousands	Note	2019	2018
General and administrative expenses	(L)	(2,684)	(2,005)
Research and development expenses		(339)	(62)
Other income	(M)	1,221	1,180
Operating profit (loss)		**(1,802)**	**(887)**
Finance expenses	(N)	(52)	(3)
Finance income	(N)	63	6
Profit (loss) before tax		**(1,791)**	**(884)**
Tax on result from ordinary activities	(O)	-	-
Share of result from participating interests	(P)	(92)	2,732
Profit (loss)		**(1,883)**	**1,848**

The notes on pages 68 to 75 are an integral part of these separate financial statements.

(A) General information

General

For general information about the Company and its principal activities, we refer to note 1 of the consolidated financial statements. Refer to note H for an overview of the Company's subsidiaries.

Accounting principles used to prepare Separate Financial Statements

The Company financial statements have been prepared in accordance with Part 9 of Book 2 of the Netherlands Civil Code. In accordance with Article 2:362 subsection 8 of the Civil Code, the Company has elected to apply the valuation of the accounting policies used in the consolidated financial statements to the separate Company financial statements. The financial statements are presented in Euros, which is the Company's functional currency. All amounts are in thousands unless stated otherwise.

In addition, Consolidated Group companies (financial fixed assets) are valued based on their net equity, determined using the Group accounting policies. In case the net equity of a Group Company is negative, the Company nets the negative equity value with the intercompany loans which are determined to be part of the net investment as far as this is possible. For the remaining part of the negative equity, the Company records a provision for as far as the Company assesses that it has a legal or constructive obligation to reimburse the Group companies' losses.

The Company makes use of the option to eliminate intragroup expected credit losses against the book value of loans and receivables from the Company to participating interests, instead of elimination against the equity value / net asset value of the participating interests.

The share in the result of participating interests consists of the share of the group in the results of these participating interests, determined on the basis of the accounting principles of the group. Results on transactions, where the transfer of assets and liabilities between the group and the non-consolidated participating interests and mutually between non-consolidated participating interests themselves, are not recognised as they can be deemed as not realised.

Restatement

During 2019, the Group discovered that losses from subsidiaries with negative asset value had been erroneously recorded in provisions and other creditors, instead of credited to loan receivables from subsidiaries in its prior year separate financial statements. The loan receivables were incorrectly not accounted for as long-term investment that in substance form part of the net investment in the subsidiary. As a consequence, provisions, other creditors and loans to subsidiaries have been overstated. The errors have been corrected by restating each of the affected financial statement line items for prior periods. The impact of the restatement was a decrease in loans to subsidiaries of €738,000, a decrease in provisions of €587,000 and a decrease in other creditors by €151,000. The restated amounts for 2018 are as follows: loans to subsidiaries of €1,847,000, provisions of €0 and other creditors of €723,000. There is no impact on the Group's statement of profit or loss and no impact on the Group's statement of cash flows for the years ended 31 December 2019 and 2018.

(B) Composition of shareholders' equity

Refer to the statement of changes in equity and note 20 of the consolidated financial statements for Shareholders' equity of the separate financial statements.

(C) Intangible assets

In EUR thousands	Patents & licenses	Development costs	Total
At 1 January 2018			
Cost	698*	7,398*	8,096
Accumulated amortisation and impairment	(467)*	(2,293)*	(2,760)
Net carrying amount	**231**	**5,105**	**5,336**
Changes to net carrying amount in 2018			
Additions	68	1,401	1,469
Amortisation	(51)	(977)	(1,028)
Total changes in 2018	**17**	**424**	**441**
At 31 December 2018			
Cost	766*	8,799**	9,565
Accumulated amortisation and impairment	(518)*	(3,270)**	(3,788)
Net carrying amount	**248**	**5,529**	**5,777**
Changes to net carrying amount in 2019			
Additions	31	1,282	1,313
Amortisation	(57)	(1,111)	(1,168)
Total changes in 2019	**(26)**	**171**	**145**
At 31 December 2019			
Cost	797	10,081	10,878
Accumulated amortisation and impairment	(575)	(4,381)	(4,956)
Net carrying amount	**222**	**5,700**	**5,922**

** The 2018 amounts for costs and accumulated amortisation of patents and licenses have been restated for comparative purposes by €202,000 due to an error. This did not have an impact on the 2018 net carrying amount.*

*** The 2018 amounts have been restated, refer to note 13 of the consolidated financial statements.*

Development costs

Major projects capitalised during the year included New Recognition Systems – Single Feed €909,000 (2018: €510,000), Modular and Modular Core €142,000 (2018: €783,000) and New Recognition Systems-Bulk Feed €105,000 (2018: €29,000). See also note 13 for capitalised development costs of the Company.

(D) Financial fixed assets

	2019	2018
	€'000	€'000
Investment in subsidiaries	21,812	18,381
Loans to subsidiaries	1,154	1,847
Total Financial Fixed Assets	**22,966**	**20,228**

Movements in financial fixed assets were as follows:

	Investment in subsidiaries	Loans to subsidiaries
	€'000	€'000
Balance at 1 January 2019	18,381	1,847
Investments and loans provided	688	1,241
Results of the group companies for the year	(92)	-
Exchange differences	264	-
Movement of negative participations to loans	1,934	(1,934)
Movement of negative participations to provision	637	-
End of year	**21,812**	**1,154**

(E) Receivables

	2019	2018
	€'000	€'000
Other receivables	764	831
Receivables from subsidiaries	74	-
Total	**838**	**831**

Other receivables include €676,000 (2018: €764,000) that relates to a loan to an affiliate under common control of the majority shareholder which is extended in the year and repayable on 31 December 2020, with interest at Euribor plus 2.5%. €50,000 (2018: €50,000) relates to a loan to a German subsidiary employee. €20,000 is in respect of VAT receivable (2018: €17,000), €3,000 is prepaid insurance (2018: €0) and other receivables amount €15,000 (2018: €0). The 2018 receivables also included a loan of €1,317 to a director, Mr. Christian Crepet, which was repaid during the year December 2019.

(F) Cash and cash equivalents

	2019	2018
	€'000	€'000
Cash at bank and in hand	174	1,476
Cash and cash equivalents	**174**	**1,476**

(G) Shareholders' equity

Refer to Consolidated statement of changes in equity (page 23) and note 20 Shareholders' equity of the Company's consolidated financial statements for further information regarding the Company's shareholders' equity.

Legal reserve

According to Book 2 of the Netherlands Civil Code, the Company is required to restrict part of its equity from distribution to shareholders, by forming a legal reserve equal to the amount it has capitalised for development costs. The equity enclosed in this legal reserve is not at the disposal of the General Meeting of Shareholders. Therefore, this amount cannot be distributed to shareholders until the capitalised development costs have been recognised in the profit and loss account. The capitalised development costs as at 31 December 2019 amounted to €5,700,000 (2018: €5,529,000). A legal reserve equaling these amounts has been created in both the years by decreasing the share premium reserve with these respective amounts. In the consolidated statement of changes in equity and note 20 of the consolidated financial statements the legal reserve is included in the share premium reserve.

Dividends

No dividends were declared or paid by the Company for the year.

Proposed appropriation of profit or loss for the financial year 2019

No dividend was paid in 2019. The Board of Directors proposes that the loss for the financial year 2019 amounting to €1,883,000 will be charged to the retained earnings. The financial statements reflect this proposal.

The Netherlands Civil Code stipulates that the Company can only make payments to the shareholder and other parties entitled to the distributable profit insofar as (1) the Company can continue to pay its outstanding debts after the distribution (the so-called distribution test), and (2) the shareholder's equity exceeds the legal reserves and statutory reserves under the articles of association to be maintained (the so-called balance sheet test). If not, management of the Company shall not approve any distribution.

(H) Subsidiaries and affiliates of Envipco

The Company has the following subsidiaries:

Envipco (UK) Limited – London, United Kingdom – 100%
Envipco Automaten GmbH, Westerkappeln, Germany – 100%
Envipco Pickup & Processing Services Inc., Delaware, U.S.A. – 99.85%
Environmental Products Corporation, Delaware, U.S.A. – 99.85%
Environmental Products Recycling Inc., Delaware, U.S.A. – 99.85%
Envipco A.S., Oslo, Norway – 100%
Envipco N.D. Inc., Delaware, U.S.A. – 99.85%
Envipco Sweden A.B., Borlange, Sweden – 100%
Envipco Hellas SA, Athens, Greece – 100%
Envipco France SA, Paris, France – 100%
Envipco Solutions SRL, Alba Iulia, Romania – 100%

(I) Loans from subsidiaries

	2019	2018
	€'000	€'000
Beginning of period	1,397	451
Additions	1,512	946
End of period	**2,909**	**1,397**

Loans from subsidiaries include current balances that have been rolled over by the Company annually and will not be repaid in the short term. No interest has been charged in 2019. The Company has formalised the agreements in 2020 and has presented these as non-current in the balance sheet in accordance with the revised maturity.

(J) Other non-current liabilities

	2019	2018
	€'000	€'000
Provision against investments	637	-
Other liabilities	120	220
Total	**757**	**220**

Other liabilities include a loan of €120,000 (2018: €120,000) payable to Mr. Gregory Garvey, a related party. There are no conditions, interest or maturity period for this loan. The Company determines that a constructive obligation exists to reimburse for all of the subsidiaries' losses and therefore records a provision for the entire amount of the subsidiaries' negative equity after netting with the intercompany loans.

(K) Creditors and other liabilities

	2019	2018
	€'000	€'000
Creditors	121	270
Accrued expenses	423	453
Payables to subsidiaries	1,337	-
Total	**1,881**	**723**

(L) General and administrative expenses

General and administrative expenses include the following:

Legal and other expenses

	2019	2018
	€'000	€'000
Legal charges	769	541
Compliance and other costs	747	436
Depreciation and amortisation of intangible fixed assets	1,168	1,028
Total	**2,684**	**2,005**

Wages and Salaries

Wages and salaries is included in general and administrative expenses are the following:

	2019	2018
	€'000	€'000
Wages & Salaries	54	42
Total	**54**	**42**

Average number of employees

The staffing level (average number of staff) can be divided into the following staff categories:

	2019	2018
	€'000	€'000
General and administrative	1	1
Total number of employees	**1**	**1**

During the 2019 financial year the average number of staff employed in the Company converted to equivalents, amounted to 1 person (2018: 1 person).

(M) Other operating income

	2019	2018
	€'000	€'000
Management fee	613	590
Royalty fee	608	590
Total	**1,221**	**1,180**

(N) Finance income and expense

	2019	2018
	€'000	€'000
Interest and similar expenses	(52)	(3)
Interest and similar income	14	3
Exchange gains/(losses)	49	3
Total	**11**	**3**

(O) Tax on result from ordinary (business) activities

The tax on the result from ordinary activities, amounting to a credit of €0 (2018: €0) can be specified as follows:

	2019	2018
	€'000	€'000
Result before taxes	(1,883)	1,848
Income tax using the appropriate tax rate in the Netherlands @ 25%	471	(462)
Participation exemption	(23)	683
Current year losses for which no deferred tax asset was recognised and changes in unrecognised temporary differences	(448)	(221)
Effective taxes	-	-

Tax losses where no deferred tax has been recognised amounted to €7,788,000 (2018: €6,014,000).

(P) Transactions with related parties

Transactions and relations with the shareholders and affiliates are explained in notes 18 and 26 of the consolidated financial statements.

Net research and development costs invoiced by Germany and USA were €1,496,000 (2018: €1,401,000) to the Company. The Group companies charge interest on intercompany loans. No interest is charged on the intercompany current account balances. The Company also charges a management fee to its subsidiaries.

During the year 2019 the Company received funds of €0 (2018: €1,550,000) from one its US subsidiaries as return of capital.

The Company provided a Guarantee of $6,457,000 in 2019 and $8,083,000 in 2018 to the USA subsidiary's lender, TD Bank N.A., for the credit facilities.

(Q) Financial instruments

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk.
- Liquidity risk.
- Market risk.

In the notes to the consolidated financial statements information is included about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

These risks, objectives, policies and processes for measuring and managing risk, and the management of capital apply also to the separate financial statements of the Company.

(R) Fair value

The fair values of most of the financial instruments recognised on the statement of financial position, including trade and other receivables, cash and cash equivalents and current liabilities, is approximately equal to their carrying amounts. The fair value of the loans due to and from group companies cannot be determined with sufficient certainty. For further information, please refer to note D - Financial fixed assets and note I - Loans from subsidiaries.

(S) Post balance sheet events

Details of the post balance sheet events are given on page 64 of the notes to the consolidated financial statements.

Amersfoort, 12 May 2020

w.s. Mr. Gregory Garvey (Chairman)

w.s. Mr. Alexandre Bouri
w.s. Mr. David D'Addario
w.s. Mr. Guy Lefebvre

w.s. Mr. Dick Stalenhoef
w.s. Mr. Christian Crépet

Statutory rules concerning appropriation of results

In Article 15 of the Company statutory regulations the following has been presented concerning the appropriation of result:

1. In the Company's books, a dividend reserve shall be maintained for each class of shares. These dividend reserves shall be designated as 'dividend reserve' followed by the letter corresponding with the relevant class of shares.
2. The Company may make distributions to shareholders and other persons entitled to distributable profits only to the extent that the shareholders' equity exceeds the sum of the paid and called-up part of the share capital and the reserves which must be maintained by law.
3. An amount equal to three percent of the average balance of the relevant dividend reserve over the relevant financial year, increased by the amounts withdrawn from the reserves pursuant to the provisions of paragraph 5 of this article, shall be retained from the profit as referred to in paragraph 2 of this article and added to each of the dividend reserves. If the amount calculated as described above is larger than the available profit, the amounts to be added shall be decreased pro rata.
4. The profit that remains after applying the above shall be at the disposal of the General Meeting of Shareholders. If the General Meeting of Shareholders does not resolve to add the profit to the Company's general reserve, the profit shall be added to the abovementioned dividend reserves pro rata to the nominal amount of the shares of the single class.
5. Losses shall be charged to the Company's general reserve and, if and to the extent this reserve is insufficient, to the dividend reserves pro rata to the nominal amount of the shares of the single class.
6. Each withdrawal from the dividend reserve pursuant to the provisions of the preceding paragraph must be compensated before any addition can be made to any dividend reserve pursuant to paragraph 4.
7. The General Meeting of Shareholders shall resolve to distribute such amounts on the shares corresponding with a particular dividend reserve as has been decided upon by the meeting of the holders of the single class of shares, up to the amount of the positive balance of that dividend reserve and if and to the extent the relevant dividend reserve is sufficient.

   The General Meeting of Shareholders may only decide not to distribute the amounts referred to in the preceding sentence if and to the extent that it can be demonstrated and that the Company's liquidity position does not allow this.
8. The General Meeting of Shareholders is authorised to apply the dividend reserves for a different purpose after having obtained the prior approval of all holders of shares of a particular class, on the understanding that the distribution shall be charged to the various reserves pro rata to the nominal amount of the shares of the relevant classes.
9. The Company may only make interim additions to the dividend reserves if the requirement in paragraph 2 has been met and provided that the prior approval of the General Meeting of Shareholders has been obtained.
10. No distribution shall be made in favour of the Company on shares acquired by the Company in its own capital for such shares.
11. Shares for shares on which, pursuant to the provisions of paragraph 7, no distribution is made in favour of the Company do not count for the purpose of calculating the profit appropriation.
12. The claim for payment of dividends shall lapse on the expiry of a period of five years.

Independent auditor's report

To: the General Meeting of Shareholders of Envipco Holding N.V.

Report on the audit of the financial statements 2019 included in the Annual Report

Our opinion

In our opinion:

— the accompanying consolidated financial statements give a true and fair view of the financial position of Envipco Holding N.V. as at 31 December 2019 and of its result and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code.

— the accompanying separate financial statements give a true and fair view of the financial position of Envipco Holding N.V. as at 31 December 2019 and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the financial statements 2019 of Envipco Holding N.V. ('the Company or Envipco') based in Amsterdam. The financial statements include the consolidated financial statements and the separate financial statements.

The consolidated financial statements comprise:

1 the consolidated statement of financial position as at 31 December 2019;

2 the following consolidated statements for the year ended 31 December 2019: the statements of profit or loss and comprehensive income, cash flows and changes in equity; and

3 the notes comprising a summary of the significant accounting policies and other explanatory information.

The separate financial statements comprise:

1 the separate statement of financial position as at 31 December 2019;

2 the separate statement of profit or loss for the year ended 31 December 2019; and

3 the notes comprising a summary of the accounting policies and other explanatory information.

Basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the 'Our responsibilities for the audit of the financial statements' section of our report.

We are independent of Envipco in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assurance-opdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence regulations in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audit approach

Summary

Materiality
— Materiality of EUR 350,000
— 1% of Revenue

Group audit
— 89% of total assets
— 92% of revenue

Key audit matters
— Revenue recognition in cut-off period
— Inaccurate capitalization of development costs
— Valuation of deferred tax assets
— Uncertainties related to COVID-19

Opinion
Unqualified

Materiality

Based on our professional judgement we determined the materiality for the financial statements as a whole at EUR 350,000. The materiality is determined with reference to the relevant benchmark being revenue (1.0%). We consider revenue as the most appropriate benchmark because the Company is in a growth stage and the main stakeholders at this state of the life cycle are primarily focused on the growth in revenue. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for the users of the financial statements for qualitative reasons.

We agreed with the Board of Directors that unadjusted misstatements in excess of EUR 17,500 which are identified during the audit, would be reported to them, as well as smaller misstatements that in our view must be reported on qualitative grounds**.**

Scope of the group audit

Envipco is at the head of a group of components. The financial information of this group is included in the financial statements of Envipco.

Our group audit mainly focused on significant components that are (i) of individual financial significance to the group, or (ii) that, due to their specific nature or circumstances, are likely to include significant risks of material misstatement of the group financial statements.

We have:

— performed audit procedures at group level in respect of the company financial statements and specific items for group companies;

— We made use of the work of KPMG USA for the audit of the US components that are signficant to the group. We have sent detailed instructions to KPMG USA, covering significant areas including the relevant risks of material misstatement and set out the information required to be reported to the group audit team. We held conference calls and physical meetings with KPMG USA. We visited the component location and we performed a review of the audit files of KPMG USA;

— for the remaining components, we performed analytical procedures in order to corroborate our assessment that there are no risks of material misstatements.

By performing the procedures mentioned above at group components, together with additional procedures at group level, we have been able to obtain sufficient and appropriate audit evidence about the group's financial information to provide an opinion about the financial statements.

Our procedures as described above can be summarized as follows:

Total assets

87%	2%	11%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures at group level

Revenue

92%	0%	8%
Audit of the complete reporting package	Audit of specific items	Covered by additional procedures at group level

Audit scope in relation to fraud

In accordance with the Dutch Standards on Auditing we are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. In determining the audit procedures we will make use of the evaluation of management in relation to fraud risk management (prevention, detections and response), including ethical standards to create a culture of honesty.

In our process of identifying fraud risks we assessed fraud risk factors, which we discussed with the Board of Directors. Fraud risk factors are events or conditions that indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. In our risk assessment we made use of a forensic specialist.

We communicated identified fraud risks throughout our team and remained alert to any indications of fraud throughout the audit. This included communication from the group to component audit teams of relevant fraud risks identified at group level.

We identified and addressed the following fraud risks that were relevant to our audit:

- fraud risk in relation to the US revenue recognition in respect of incorrect cut-off at period end (a presumed risk); and
- fraud risk in relation to management override of controls (a presumed risk).

Our audit procedures included an evaluation of the design and implementation of internal controls relevant to mitigate these fraud risks and supplementary substantive audit procedures. This included inquiries of management and detailed testing of high risk journal entries amongst others relating to revenue and an evaluation of key estimates and judgement by management with respect to the estimates as described in the key audit matters ‘inaccurate capitalization of development costs' and 'the valuation of deferred tax assets'. Furthermore, in relation to the correct recognition of revenues for the period prior to the financial year-end, we carried out inspection and testing of documentation such as agreements with customers and shipping documents.

As part of our evaluation of any instances of fraud, we inspected the incident register/whistle blowing reports.

We communicated our audit response to management and the Board of Directors. Our audit procedures differ from a specific forensic fraud investigation, which investigation often has a more in-depth character.

For details on our audit procedures and observations regarding revenue recognition in respect of incorrect cut-off at period, we refer to the key audit matter on this topic as included in this auditor's report.

We do note that our audit is based on the procedures described in line with applicable auditing standards and are not primarily designed to detect fraud.

Audit scope in relation to non-compliance with laws and regulations

We have evaluated facts and circumstances in order to assess laws and regulation relevant to the Company.

We identified laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general and sector experience, through discussions with the Board of Directors, and discussed the Company's policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations within our audit team and remained alert to any indications of non-compliance throughout the audit. This included communication from the group to component audit teams of relevant laws and regulations identified at group level. The potential effect of these laws and regulations on the financial statements varies considerably:

- Firstly, the company is subject to laws and regulations that directly affect the financial statements including taxation and financial reporting (including related company legislation). We assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.
- Secondly, the company is subject to many other laws and regulations where the consequences of non-compliance could have an indirect material effect on amounts recognized or disclosures provided in the financial statements, or both, for instance through the imposition of fines or litigation.

We identified the following areas of laws and regulations as those most likely to have such an effect: competition legislation, employment legislation, health and safety regulation, contract legislation, environmental regulation and recycling legislation.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to inquiry of the Board of Directors and inspection of board minutes and regulatory and legal correspondence, if any. Through these procedures, we did not identify any additional actual or suspected non-compliance other than those previously identified by the company in each of the above areas. We considered the effect of actual or suspected non-compliance as part of our procedures on the related financial statement items.

Our procedures to address compliance with laws and regulations did not result in the identification of a key audit matter.

We do note that our audit is not primarily designed to detect non-compliance with laws and regulations and that management is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to errors or fraud, including compliance with laws and regulations.

The more distant non-compliance with indirect laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

Initial audit

Initial audit engagements involve considerations in addition to those applied in recurring audits. During initial audit engagements we need to gain sufficient knowledge about the Company, its business, control environment and application of accounting principles in order to perform our initial audit risk assessment and planning of audit activities.

A transition plan, including independence clearance, was prepared prior to the start of the audit. We started our transitional procedures to gain an understanding of Envipco and its business including its control environment and accounting policies. We have been in close contact with the predecessor auditor and have performed reviews on their audit files at all levels throughout the group. During 2019 we have had regular meetings with management, performed site visits in the US and Germany, and assessed key audit matters at an early stage.

Our key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements. We have communicated the key audit matters to the Board of Directors. The key audit matters are not a comprehensive reflection of all matters discussed.

These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition in cut-off period

Description

Revenue is recognized when the performance obligations have been fulfilled. The Company has various revenue streams with different performance obligations. These include service revenue, revenue from sale of goods and leasing revenue. We have identified a presumed risk of fraud on the existence of revenue due to targets to be realized. This fraud risk especially relates to the sales of RVM machines sold at year-end (cut-off) considering the high value of these machines.

Our response

Our procedures included, amongst others:

- inquiry of management and inspection of documents to obtain an understanding about the process with respect to the cut-off of revenue including testing the design and implementation;
- assessment of the revenue recognition method based on IFRS 15;
- execution of test of details based on a sample, including testing underlying evidence of revenue recognized such as contract, confirmation of delivery and payments;
- verification of sales transactions taking place before year-end to ensure that the revenue and accounts receivables are recognized in the appropriate period.

Our observation

Based on the results of our procedures performed we consider the accounting for revenue regarding the sale of goods to be satisfactory.

Inaccurate capitalization of development costs

Description

The Company has significant capitalized development costs related to the development of (new) products. The capitalization of development costs is considered to be a key audit matter, because capitalization needs to be performed in accordance with the recognition criteria in IAS 38. That amongst other requires judgement on the cost that can be capitalized and conditions that should be met. Inaccurate capitalizing of developments costs is therefore considered to be a significant risk of error.

Our response

Our procedures included, amongst others:

- inquiry of management and inspection of documents to obtain an understanding about the capitalization of development costs;
- testing design and implementation of controls set up by management surrounding the capitalization of development costs;
- verification of the amount capitalized in accordance with the recognition criteria in IAS 38;
- performing test of details on the accuracy of cost capitalized based on supporting documentation. Based on a sample we vouched the underlying documents, such as hours incurred, hourly rates, external invoices, with the Company’s ledger to confirm the accuracy;

— assessment of the adequacy of the disclosures made by the Company in this area and the Company's compliance with EU-IFRS accounting policies.

Our observation

Based on the procedures performed on the capitalization of development costs we consider that the accounting for capitalization is satisfactory and in accordance with the EU-IFRS. Furthermore we determined that the related disclosure meets the requirements of EU-IFRS.

Valuation of deferred tax assets

Description

The Company has significant deferred tax asset positions (DTA) in the US. These are subject to the recognition criteria in IAS 12. We identified a risk of error due to the judgement and uncertainty involved in management's forecasts of future taxable income to support the recognition of these deferred tax asset positions.

Our response

Our procedures included, amongst others:

- inquiry of management and inspection of documents to obtain an understanding about the tax process;
- testing design and implementation of controls set up by management surrounding the valuation of deferred tax assets;
- inspection and verification of the variables and assumptions included in the model used to determine the recoverability. This included the reconciliation of net operating losses' with the tax return, verification of the expiration term and verification of the accuracy of related current and deferred tax balances;
- involvement of KPMG tax specialists to support auditing the US tax position;
- evaluation of management's judgements and estimates in relation to availability of sufficient taxable profits against with the deferred tax assets will be realized is probable;
- challenge management assumptions used and perform a retrospective review of the prior year's forecasts used;
- assessment of the adequacy of the disclosures made by the Company in this area and the Company's compliance with EU-IFRS accounting policies.

Our observation

The results of our procedures regarding the evaluation of management's judgements and estimates are satisfactory. We determined that the related disclosure in note 16 meets the requirements of EU-IFRS.

Uncertainties related to COVID-19

Description

As part of the preparation of the financial statements, management is responsible to assess the possible effects of COVID-19 on the company's liquidity and related ability to continue as a going concern and appropriately disclose the results of its assessment in the financial statements. The COVID-19 pandemic is an unprecedented challenge for humanity and for the economy globally, and at the date of the financial statements its effects are subject to significant levels of uncertainty. Management prepared a financial and liquidity risk analysis addressing amongst others future compliance with financing covenants as well as the financing and cash requirements to ensure continuation of the company's operations.

Our response

We considered the uncertainties arising from COVID-19 in planning and performing our audit. Our procedures included:

- consideration of management's assessment of COVID-19-related sources of risk for the company's business and financial resources compared with our own understanding of the risks. We considered management's plans to take action to mitigate the risks;
- assessment of the reliability of the forecasts for the US activities by performing a retrospective review of previous forecasts and by comparing them with market expectations;
- evaluation of the assumptions in respect of projected available future cash flows from operating, financing and possible delay of expansion activities in Europe as well projected key ratios for future covenant calculations;
- assessment of management's analysis to our assessment of the full range of reasonably possible scenarios resulting from COVID-19 uncertainty;
- inspection of supporting documentation such as new loan agreements, subsequent cash positions and underlying calculations of future covenants;
- evaluation of the disclosure related to going concern as set forth in note 1(d), including those in the Board of Directors report, comparing the overall picture against our understanding of the risks.

Our observation

We found management's assumptions and aforementioned disclosures to be acceptable. However, an audit cannot predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to COVID-19.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information.

Based on the following procedures performed, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements; and
- contains the information as required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained through our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing these procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of the procedures performed is substantially less than the scope of those performed in our audit of the financial statements.

The Board of Directors is responsible for the preparation of the other information, including the information as required by Part 9 of Book 2 of the Dutch Civil Code.

Report on other legal and regulatory requirements

Engagement

We were engaged by the General Meeting of Shareholders as auditor of Envipco Holding N.V. on 12 August 2019, as of the audit for the year ending on 31 December 2019.

No prohibited non-audit services

We have not provided prohibited non-audit services as referred to in Article 5(1) of the EU Regulation on specific requirements regarding statutory audits of public-interest entities.

Description of responsibilities regarding the financial statements

Responsibilities of Board of Directors for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with EU-IFRS and Part 9 of Book 2 of the Dutch Civil Code. Furthermore, the Board of Directors is responsible for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Directors is responsible for assessing Envipco Holdings N.V.'s ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Board of Directors should prepare the financial statements using the going concern basis of accounting unless the Board of Directors either intends to liquidate Envipco Holding N.V. or to cease operations, or has no realistic alternative but to do so. The Board of Directors should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

Our responsibilities for the audit of the financial statements

Our objective is to plan and perform the audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence for our opinion.

Our audit has been performed with a high, but not absolute, level of assurance, which means we may not detect all material errors and fraud during our audit.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. The materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A further description of our responsibilities for the audit of the financial statements is included in the appendix of this auditor's report. This description forms part of our auditor's report.

Amstelveen, 14 May 2020

KPMG Accountants N.V.

L.A. Ekkels RA

Appendix:
Description of our responsibilities for the audit of the financial statements

Appendix

Description of our responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit, in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit included among others:

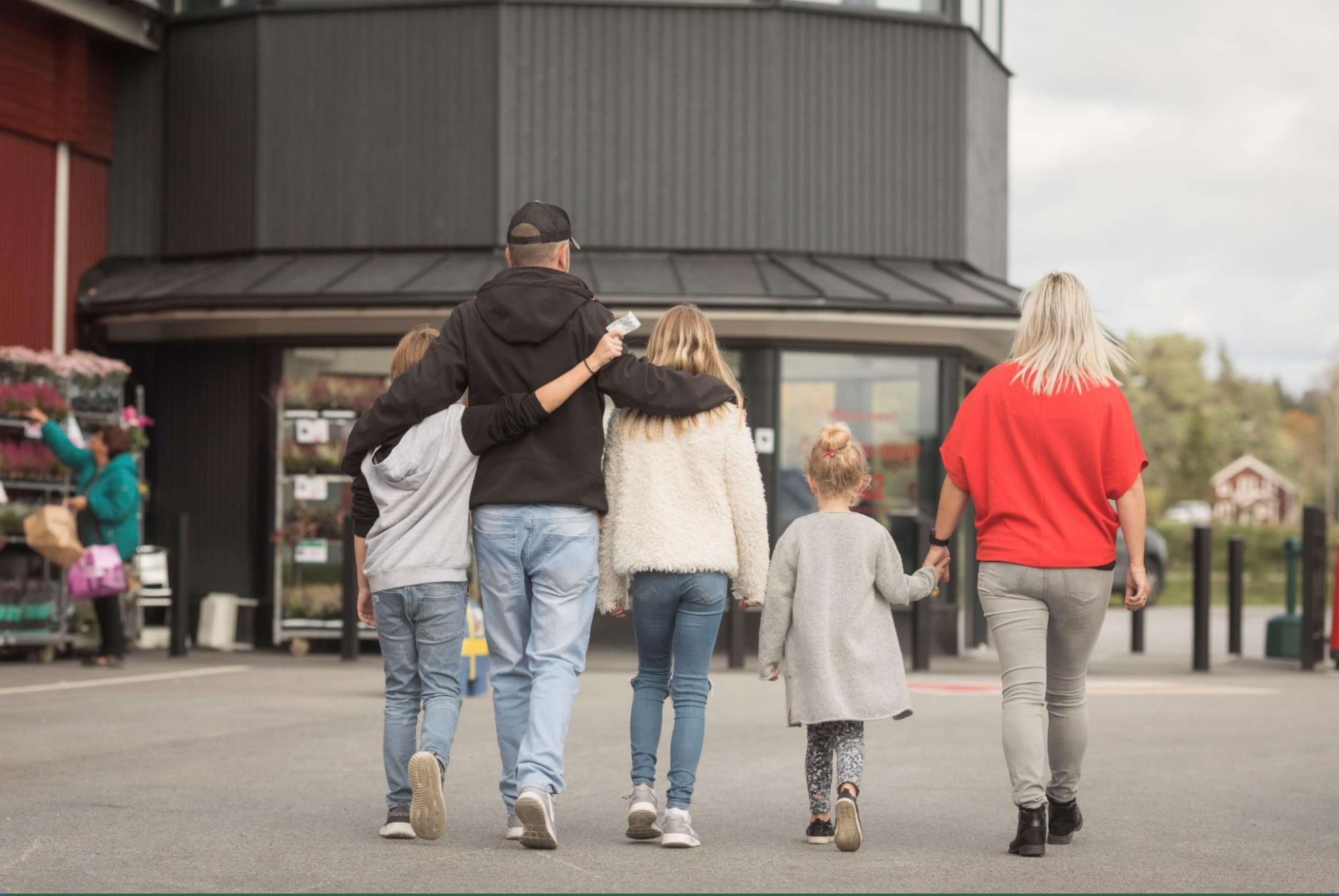
- identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud or non-compliance is higher than the risk resulting from error, as fraud and non-compliance may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtaining 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 Envipco Holding N.V.'s internal control;
- evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors;
- concluding on the appropriateness of the Board of Director'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 Envipco Holding N.V.'s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause a company to cease to continue as a going concern;
- evaluating the overall presentation, structure and content of the financial statements, including the disclosures; and
- evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We are solely responsible for the opinion and therefore responsible to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the financial statements. In this respect we are also responsible for directing, supervising and performing the group audit.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant findings in internal control that we identify during our audit. In this respect we also submit an additional report to the audit committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audits of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Board of Directors 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 Board of Directors, we determine the key audit matters: those matters that were of most significance in the audit of the financial statements. 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, not communicating the matter is in the public interest.



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