Secop Group Holding GmbH,
Flensburg

Consolidated financial statements,
Group management report and
auditor's report
for the financial year from 1 January 2022 to
31 December 2022

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Consolidated financial statements as of 31 December 2022

SECOP

Consolidated statement of comprehensive income from 1 January until 31 December 2022

	Note	2022 T€	2021 T€
Revenue	4.1	**277,763**	**300,466**
Cost of sales		**-232,559**	**-240,169**
Gross profit		**45,205**	**60,297**
Other income	7.1	26,895	8,398
Sales and distribution expenses	7.2	-21,025	-22,484
Administrative expenses	7.3	-19,392	-18,910
Other expenses	7.4	-23,832	-18,247
Operating profit		**7,852**	**9,054**
Financial expenses	7.6	-10,347	-9,911
Financial income	7.7	913	993
Net financial income		**-9,434**	**-8,918**
Profit before tax		**-1,582**	**136**
Income tax	8.	-1,016	1,872
Consolidated net income		**-2,600**	**2,008**
Currency translation	16.	-597	5,610
Revaluation of derivatives	16.	98	-98
Revaluation of deferred taxes	16.	235	0
Net other comprehensive income/loss that may be reclassified to profit or loss in subsequent periods		***-264***	***5,512***
Pension plans	21.	1,225	468
Net other comprehensive income/loss that will not be reclassified to profit or loss in subsequent periods		***1,225***	***468***
Other comprehensive income/loss	16.	**961**	**5,980**
Total comprehensive income		***-1,638***	***7,986***
Thereof attributable to			
shareholders of the parent company		*-1,638*	*7,986*
non-controlling shareholders		*0*	*0*

SECOP

Consolidated statement of financial position as of 31 December 2022

	Note	31/12/2022 T€	31/12/2021 T€
Assets			
Non-current assets			
Property, plant and equipment	9.	86,339	85,621
Intangible assets	10.	60,924	58,888
Right-of-use assets[1]	11.	6,844	7,416
Deferred tax assets	8.	310	1,133
		154,418	**153,058**
Current assets			
Inventories	13.	36,665	50,483
Trade receivables	14.	39,265	52,437
Other financial assets	12.1	4,282	4,693
Other non-financial assets	22.1	6,585	11,566
Cash and bank balances	15.	17,245	13,049
		104,043	**132,228**
Total assets		**258,461**	**285,286**
Equity and liabilities			
Equity			
Subscribed capital	16.	25	25
Capital reserves	16.	1,975	1,975
Retained earnings	16.	32,267	33,281
Other reserves	16.	3,723	4,416
Total equity		**37,990**	**39,697**
Non-current liabilities			
Interest-bearing loans and borrowings	20.	106,739	101,977
Other financial liabilities	19.	6,549	7,481
Other non-financial liabilities	22.2	0	0
Provisions	17.	5,675	3,136
Net employee defined benefit liabilities	21.	2,827	4,085
Deferred tax liabilities	8.	16,061	16,876
		137,851	**133,555**
Current liabilities			
Trade payables	18.	47,787	72,102
Liabilities to banks	20.	10,060	0
Other financial liabilities	19.	11,543	20,943
Other non-financial liabilities	22.2	7,030	9,657
Provisions	17.	6,200	9,332
		82,620	**112,034**
Total liabilities		**220,471**	**245,589**
Total assets		**258,461**	**285,286**

Consolidated statement of changes in equity from 1 January to 31 December 2022

	Subscribed capital	Capital reserves	Retained earnings	Revaluation of defined benefit plans	Revaluation of derivatives	Deferred taxes	Equity difference from currency translation	**Total equity**
	T€	T€	T€	T€			T€	T€
As at 1 January 2022	**25**	**1,975**	**33,281**	**-192**	**-98**	**0**	**4,707**	**39,697**
Accounting profit/loss	0	0	-2,600	0	0	0	0	**-2,600**
Other comprehensive income/loss	0	0	-68	1,225	98	235	-598	**893**
Other adjustments	0	0	1,654	0	0	0	-1,654	**0**
As at 31 December 2022	**25**	**1,975**	**32,267**	**1,033**	**0**	**235**	**2,455**	**37,990**

	Subscribed capital T€	Capital reserves T€	Retained earnings T€	Revaluation of defined benefit plans T€	Revaluation of derivatives	Equity difference from currency translation T€	**Total equity** T€
As at 1 January 2021	**25**	**1,975**	**32,722**	**-661**	**0**	**-904**	**33,157**
Accounting profit/loss	0	0	2,006	0	0	0	**2,006**
Other comprehensive income/loss	0	0	-1,447	468	-98	5,610	**4,534**
As at 31 December 2021	**25**	**1,975**	**33,281**	**-192**	**-98**	**4,707**	**39,697**

Consolidated statement of cash flows from 1 January to 31 December 2022

	2022 T€	2021 T€
Operating activities		
EBIT	***7,851***	***9,053***
+ Depreciation/- write-ups of property, plant and equipment, intangible assets and right-of-use assets	14,567	10,078
- Decrease/+ increase in provisions	-676	-3,807
Out-of-court settlement Nidec	-11,039	0
± Non-cash items from the consolidation	-1,111	1,747
+ Decrease/- increase in trade receivables and short term assets	13,106	-7,058
+ Decrease/- increase in inventories	13,964	-15,134
- Decrease/+ increase in trade payables, other liabilities and short term provisions	-18,788	14,920
± Changes in other statement of financial position items	1,509	-1,030
Income tax paid	-861	-1,363
Income tax received	205	31
Net cash flows from operating activities	***18,727***	***7,437***
Investing activities		
- Investments in tangible assets	-7,181	-12,126
- Investments in intangible assets	-8,750	-7,948
- Investments in right-of-use assets in line with IFRS 16	-940	-3,066
+ Proceeds from sale of property, plant and equipment, intangible assets and right-of-use assets	136	334
Net cash flows used in investing activities	***-16,734***	***-22,807***
Financing activities		
Interest and fees paid	-4,789	-4,234
Interest received	1,776	1,640
Payment of principal portion of lease liabilities	-228	-194
Decrease in the escrow account	101	8,881
+ Increase/- decrease in liabilities to banks	5,245	-7,882
Net cash flows from financing activities	***2,105***	***-1,789***
Increase/decrease in cash and cash equivalents	**4,098**	**-17,158**
Cash and cash equivalents at 1 January	**13,049**	**29,304**
Increase/decrease in cash and cash equivalents	4,098	-17,158
Foreign exchange differences	97	904
Cash and cash equivalents at 31 December	**17,245**	**13,049**

Notes

Contents

Notes to the consolidated financial statements

1. Corporate information

Secop Group Holding GmbH (the "Company" or the "Parent") is a company founded in Germany on 16 January 2019 with limited liability with its registered office in Germany. The registered office is located at Lise-Meitner-Str. 29, 24941 Flensburg. The Company is registered in the commercial register under HRB 14025 FL. The Secop Group comprises the Parent company and the subsidiaries it has controlled since 7 September 2019. The Secop Group develops, produces and sells hermetic compressors for cooling applications worldwide. In pursuing this business, it uses raw and input materials, such as steel, copper, aluminium and electrical components that are essential for the compressor control systems. The raw materials are used to manufacture compressors for stationary, mobile and medical appliances in the Secop Group production facilities. The marketing and sales organisations are responsible for the global sale of the goods. The Application Engineering division provides customer service and technical marketing activities with engineering expertise for Secop Group customers.

2. Significant accounting policies

2.1 Basis of preparation

The consolidated financial statements of the Secop Group Holding GmbH have been prepared in accordance with International Financial Reporting Standards (IFRS) as published by the International Accounting Standards Board (IASB) and endorsed by the European Union. The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards in accordance with Section 315e (3) in connection with Section 315e (1) German Commercial Code.

The consolidated financial statements have been prepared on a historical cost basis. The consolidated financial statements are presented in Euros and all values are rounded to the nearest thousand Euro (T€). Rounding difference of ± one unit may arise.

The financial year of the Secop Group Holding GmbH and its subsidiaries included in the consolidated financial statements corresponds to the calendar year.

The consolidated statement of comprehensive income was prepared using the function of expense method.

The Secop Group presents assets and liabilities in the statement of financial position based on current/non-current classification. Assets and liabilities are current, when they are expected to be realised within twelve months after the reporting period. Net employee defined benefit liabilities and deferred tax assets and liabilities are classified as non-current assets and liabilities.

The 2022 consolidated financial statements include Secop Group Holding GmbH and subsidiaries controlled by it.

Control is achieved when Secop Group Holding GmbH is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. In particular, Secop Group Holding GmbH controls an investee if, and only if, the Secop Group has:

" Power over the investee i.e. existing rights that give Secop Group Holding GmbH the ability to direct those activities of the investee that have a significant impact on its returns);

" Exposure, or rights, to variable returns from its involvement with the investee;

" The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when Secop Group Holding GmbH has less than a majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

" The contractual arrangements with the other vote holders of the investee

" Rights arising from other contractual arrangements

" The Secop Group's voting rights and potential voting rights.

If facts and circumstances indicate that there are changes to one or more of the three elements of control, the Secop Group Holding GmbH reassesses whether or not it controls an investee.

Consolidation of a subsidiary begins on the day the Secop Group Holding GmbH obtains control over the subsidiary. It ceases when the Secop Group Holding GmbH loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date Secop Group Holding GmbH gains control until the date Secop Group Holding GmbH ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those of the parent company.

All intragroup assets and liabilities, equity, intragroup profits, income, expenses and cash flows relating to transactions between group companies are eliminated in full on consolidation. Any deferred tax effects that accrue as part of the consolidation will be recognised accordingly.

2.2 Summary of significant accounting policies

a) Business combinations

Business combinations in accordance with IFRS 3 are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. Acquisition-related costs are expensed as incurred and included in Other Expenses.

When the Parent acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and any existing interest held over the fair value of the net identifiable assets acquired and liabilities of the Parent assumed (active difference).

If the fair value of the net assets acquired is in excess of the aggregate consideration transferred (negative difference), the Parent re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Disclosures related to the business combination of the Secop Group in 2019 are provided in note *5 Group Information*.

b) Fair value measurement

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 valuation 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 Secop Group must have access to the principal or the most advantageous market.

The fair value of an asset or a liability is measured using the assumptions that market participants would use to determine the price of the asset or liability. It is assumed that the market participants act in their best economic interests.

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.

The Secop 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 at fair value on a recurring basis, the Secop 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. Trade receivables that exist on the reporting date and meet the requirements for a sale in the context of real factoring are assigned to the category measured at fair value through profit or loss and assigned to level 1 in the fair value hierarchy shown above.

c) Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Secop Group expects to be entitled in exchange for those goods or services. The Secop Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

Disclosures related to revenue from contracts with customers are provided in note *4.1 Disaggregated revenue information*.

Sale of refrigeration compressors

Revenue from sale of refrigeration compressors is recognised at the point in time when control of the asset is transferred to the customer, generally upon delivery of the refrigeration compressors at the customer's location or, if the customer collects the goods themselves, upon provision of the goods on the customer's lorry or the carrier commissioned by the customer. The Secop Group checks the specific time of transfer of control in each case. The normal credit term is 30 to 90 days from the date of delivery.

The Secop Group considers whether there are other commitments included in the contract that constitute separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price for the sale of refrigeration compressors, the Secop Group considers the effects of variable consideration, existence of a significant financing component, noncash considerations, and considerations payable to the customer (if any).

If a contract contains several separable goods or services, the transaction price is allocated to the performance obligations based on the relative stand-alone selling prices. The Secop Group does not use contracts that contain a significant financing component. Contracts with variable considerations are of minor importance for the Secop Group and have no material impact on the transaction prices. Contract or contract fulfilment costs are not capitalized.

Sale of licenses

If the Secop Group grants a third party the right to intellectual property and the right to participate in changes to property (dynamic license), revenue is recognized over time. If, on the other hand, third parties are only granted the right to use intellectual property in the current version as part of a license agreement (static license), revenue is recognized at the beginning of the license period. These provisions are applied depending on the specific facts and circumstances in the contract with the third party and are subject to professional judgement. Income from the sale of licenses is recorded in other operating income, as the associated research and development costs are recorded in other operating expenses. There were no sales of so-called dynamic licenses.

Warranty obligations

As standard practice, the Secop Group offers the legally prescribed warranties in Europe and individual, contractually agreed warranties outside Europe for eliminating defects that were present at the time of sale. These assurance-type warranties are accounted for as warranty provisions in accordance with IAS 37.

d) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and the Company complies with all conditions. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

e) Taxes

Current income tax

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the tax authorities. The amounts are calculated based on the tax rates and tax laws enacted or substantively enacted at the reporting date in the countries where the Secop Group operates and generates taxable income.

Current tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss.

Deferred taxes

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

" When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss and

" In respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit or taxable deferred taxes will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

" When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Deferred tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Secop Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Disclosures related to taxes are provided in note *8 Income tax*.

f) Currency translation

The Secop Group's consolidated financial statements are presented in Euros, which is also the parent company's functional and reporting currency. For each entity, the Secop Group determines the functional currency. The Secop Group uses Euro, RMB and USD as functional currencies. The functional currencies of the foreign units of the Secop Group are converted into the functional currency of the Secop Group using the following exchange rates:

Exchange rates	**31/12/2022**	**31/12/2021**
	RMB/€	**RMB/€**
Year-end rate	0.13590	0.13899
Average rate	0.13539	0.13890
	31/12/2022	**31/12/2021**
	USD/€	**USD/€**
Year-end rate	0.93756	0.88292
Average rate	0.94439	0.88466

g) Property, plant and equipment

Construction in progress is stated at cost, net of accumulated impairment losses, if any. Property, plant and equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses plus write-ups. The acquisition or manufacturing costs include the acquisition price, the incidental acquisition costs and subsequent acquisition costs less any reductions in acquisition costs. Such costs include the cost of replacing part of the plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of plant and equipment are required to be replaced at intervals, the Secop Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in profit or loss as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

‟ Buildings	22 to 50 years
‟ Plant, machinery and equipment	7 to 18 years
‟ Other equipment, (operational and business)	5 to 15 years

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal (i.e. at the date the recipient obtains control) or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognised.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at the end of each financial year end and adjusted prospectively, if appropriate.

In general, borrowing costs are recognized as expenses in the period in which the borrowing expense is incurred. Borrowing costs that can be directly allocated to the construction, acquisition or production of a qualified asset are capitalized as part of the acquisition costs in accordance with IAS 23. As in the previous year, no borrowing costs were capitalized in the 2022 financial year.

h) Leases

The Secop Group assesses at contract inception whether a contract is, or contains, a lease. That is the case if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Secop Group as a lessee

The Secop Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Secop Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) *Right-of-use assets*

The Secop Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. The costs to be paid in connection with entering a leasing contract that would not have been incurred without this contract are capitalized as contract costs to the acquisition costs of the right of use. Costs for dismantling and removing as well as restoring the contractually stipulated condition of the leased asset are taken into account as value addition at the time of the initial valuation of the right of use. The obligations that arise in connection with these costs are recognized as provisions in accordance with IAS 37.

Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

Buildings	10 to 15 years
Plant, machinery and equipment	5 to 10 years
Other equipment (operational and business)	3 to 5 years

If ownership of the leased asset transfers to the Secop Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

ii) Lease liabilities

At the commencement date of the lease, the Secop Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Secop Group and payments of penalties for terminating the lease, if the lease term reflects the Secop Group exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Secop Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Secop Group's current and non-current lease liabilities are included in other financial liabilities in note *12.2 Interest bearing loans and other financial liabilities*.

iii) Short-term leases and leases of low-value assets

The Secop Group applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of twelve months or less from the commencement date and do not contain a purchase option) of machinery and equipment. It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value (below T€ 5). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

i) Intangible assets

Intangible assets that are not acquired in a business combination are measured on initial recognition at cost.

The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition.

Following initial recognition, intangible assets are recognised at cost less any accumulated amortisation and accumulated impairment losses plus write-ups.

Internally generated intangible assets, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are tested for impairment annually, either individually or at the cash-generating unit level. These intangible assets are not amortised on a straight line basis. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Research and development costs

Research costs are expensed as incurred. Development expenditures on an individual project are recognised as an intangible asset when the Secop Group can demonstrate the following requirements of IAS 38:

" The technical feasibility of completing the intangible asset so that the asset will be available for use or sale

" Its intention to complete and its ability and intention to use or sell the asset

" How the asset will generate future economic benefits

" The availability of resources to complete the asset

" The ability to measure reliably the expenditure during development

Following initial recognition of the development expenditure as an asset, the asset is recognised at cost less any accumulated amortisation and accumulated impairment losses plus write-ups. Amortisation of the asset begins when development is completed and the asset is available for use. It is amortised over the period of expected future benefit.

Brand and customer relationships

In the course of the acquisition of the Secop Group in September 2019, the Secop Group evaluated its brands and customer relationships. The Secop brand is intended to be used indefinitely and is therefore assessed as having an indefinite useful life. The customer relationships can be expected to be used for a limited period of eight years.

A summary of the policies applied to the Secop Group's intangible assets is, as follows:

	Brand	Customer relationships (customer base)	Development costs
Useful lives	Indefinite	Finite (8 years)	Finite (10 years)
Amortisation methods used	No amortisation: Impairment Only	Amortised on a straight-line basis over the period of the customer relationships	Amortised on a straight-line basis over the period of expected future sales from the related project
Internally generated or acquired	Part of a business acquisition	Part of a business acquisition	Internally generated

j) Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

i) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income (OCI), or fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Secop Group's business model for managing them. With the exception of those trade receivables that do not contain a significant financing component, the Secop Group initially measures a financial asset at its fair value plus, in the case of a financial asset not measured at fair value through profit or loss, plus transaction costs. Those trade receivables that do not contain a significant financing component are measured at the specified transaction price.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Secop Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows. Financial assets classified and measured at fair value through OCI or profit and loss are not held by the Secop Group.

The Secop Group's financial assets are disclosed in note *12 Financial assets and liabilities*.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e. the date that the Secop Group commits to purchase or sell the asset.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

‟ Financial assets at amortised cost

‟ Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)

‟ Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition

‟ Financial liabilities at fair value through profit or loss

Financial assets at amortised cost

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Secop Group's financial assets at amortised cost mainly include trade receivables. Please see note *6 Financial instruments*.

Impairment

The Secop Group recognizes an allowance for expected credit losses (ECL) for all financial assets that are not measured at fair value through profit or loss. Expected credit losses are based on the difference between the contractual cash flows to be paid under the contract and the sum of the cash flows that the Secop Group expects to receive, discounted using an approximate value of the original effective interest rate. The expected cash flows include the cash flows from the sale of the collateral held or other credit collateral which are an integral part of the contractual conditions.

Expected credit losses are recorded in two steps. If the default risk of a financial instrument has not increased significantly since the initial recognition, risk provisions are recognized in the amount of the expected credit losses based on a default event within the next twelve months (12-month ECL). For financial instruments, the default risk of which has increased significantly since they were initially recognized, risk provisioning is recognized in the amount of the credit losses expected over the remaining term, regardless of when the default event occurs (total maturity ECL).

For trade receivables, the Secop Group uses a simplified method to calculate the expected credit losses. It tracks changes to the credit risk immediately where possible, but it records risk provisioning no later than on each reporting date on the basis of the total maturity ECL.

The Secop Group assumes default on a financial asset and the deterioration of the financial standing, if contractual payments are 90 days overdue. The depreciation requirement is then assessed on a case-by-case basis. In addition, in certain cases the Secop Group may assume a financial asset will default if internal or external information suggests that it is unlikely that the Group will receive the outstanding contractual amounts in full before all of the credit protection it holds is taken into account. A financial asset is written off in full if there is no reasonable expectation that the contractual cash flows will be realized. This is the case, for example, if the debtor is subject to liquidation or bankruptcy proceedings. Financial assets that have already been written off can still be the subject of foreclosure measures by the Secop Group. Any returns received are recognized in profit or loss when they occur.

A financial asset is derecognized if there is no longer a contractual right to receive a payment or if this right has been transferred to a third party and the relevant risks have therefore been passed to the purchaser of this right.

In the 2022 financial year, there were no changes to the estimation methods or key assumptions with regard to the valuation allowance.

Factoring

The Secop Group partly sells short-term trade receivables to a third party as part of a so-called real factoring. All significant opportunities and risks are transferred to the buyer so that the receivables sold are fully derecognized and no sustained commitment is taken into account in the statement of financial position. Receivables that qualify for factoring but have not been sold to the factor are measured at fair value through profit or loss.

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Secop Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts and floating rate bonds and other financial liabilities (see note *6 Financial instruments*).

Subsequent measurement

For purposes of subsequent measurement, financial liabilities are classified in two categories:

„ Financial liabilities at fair value through profit or loss

„ Financial liabilities at amortised cost

Financial liabilities at amortised cost

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and the floating rate bond (presented within interest bearing loans).

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

iii) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

The Secop Group's financial liabilities are disclosed in note *12 Financial assets and liabilities*.

k) Impairment of property, plant and equipment, intangible assets and rights-of-use assets

The Secop Group assesses, at each reporting date, whether there is an indication that a non-financial asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Secop Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. This model is based on valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Secop Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Secop Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Secop Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss.

Intangible assets with indefinite useful lives are tested for impairment annually at the cash-generating unit level and when circumstances indicate that the carrying value may be impaired.

The Secop Group's impairment of non-financial assets are disclosed in note *7.5 Depreciation*.

l) Cash and bank balances

Cash and bank balances in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

m) inventories

Inventories are valued at the lower of cost and net realisable value.

The production costs of semi-finished and finished products are valued at standard costs including price and quantity variances as well as production overheads. They contain directly attributable individual and overhead costs. Raw materials and supplies and goods are valued at standard costs including price and quantity variances. The net realizable value is the estimated sales proceeds that can be achieved in the normal course of business less the estimated costs up to completion and the estimated sales costs.

n) Provisions

General

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

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

Warranty provision

Warranties for general repairs of defects that existed at the time of sale are required by law to cover the period of 2 years. Provisions related to these assurance-type warranties are recognised when the product is sold, or the service is provided to the customer. Initial recognition is based on historical experience. The estimate of warranty-related costs is revised annually and disclosed in note *17 Provisions*.

Restructuring provision

Restructuring provisions are recorded when the Secop Group has a present obligation; this is the case, if (i) a formal restructuring plan is in place, that specifies the business or part of the business concerned, the principal location and the appropriate number of employees affected, a detailed estimate of the associated expenditures and a time schedule and if (ii) the main features of the plan have been announced to the employees affected by it.

Anniversary provision

The Secop Group grants anniversary benefits. The amount of the resulting anniversary provisions is valued in accordance with IAS 19 using the projected unit credit method (method of ongoing single premiums, so-called projected unit credit method).

o) Pensions and other post-employment benefits

The Secop Group operates a defined benefit pension plan in Germany. These benefits are not financed through an external fund. The cost of providing benefits under the defined benefit plan is determined using the projected unit credit method.

Remeasurements comprising actuarial gains and losses are recognised immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

The Secop Group recognises the following changes in the net defined benefit obligation in the consolidated statement of profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses from plan adjustments
- Net interest expense and income

2.3 Changes in accounting policies and disclosures

a) New and amended standards and interpretations

The Secop Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Secop Group has not prematurely adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Amendments to IAS 37: Onerous contracts — Cost of fulfilling a contract

An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

The amendments specify that, when assessing whether a contract is onerous or loss-making, an entity must consider the costs that relate directly to the fulfilment of contracts on the delivery of goods or the provision of services, including additional costs (e.g. direct labour and material costs) and other costs that relate directly to fulfilling contracts (e.g. depreciation charge for items of operational and business equipment used in fulfilling the contract and costs for organising and supervising the fulfilment of the contract). General administrative costs are not directly related to the contract and therefore do not fall under the costs of fulfilling a contract, unless the customer has been expressly charged for these costs in the contract.

These amendments have no impact on the consolidated financial statements of the Secop Group as it has not concluded any contracts.

Amendments to IFRS 3: Reference to the conceptual framework

The amendments replace the reference to a previous version of the conceptual framework of the IASB with a reference to the current version published in March 2018 without any significant changes to the existing regulations.

In addition, the amendments introduce an exemption in relation to the principles for recognition in IFRS 3 Business Combinations, in order to avoid “Day-2” profits or losses for (contingent) liabilities that would fall within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if they were entered into separately. The exemption states that entities must apply the criteria in IAS 37 or IFRIC 21 instead of the conceptual framework to determine whether a present obligation exists on the date of acquisition.

Finally, the amendments lead to the inclusion of a new paragraph in IFRS 3, which specifies that contingent assets must not be recognised on the date of acquisition.

In line with the transitional provisions, the Group is applying the amendments prospectively, i.e. to business combinations that occur after the start of the financial year in which the amendments initially apply (initial application date).

These amendments had no impact on the consolidated financial statements, as no contingent assets or (contingent) liabilities that fall within the scope of these amendments existed during the reporting period.

Amendments to IAS 16: Generating revenue before an asset is in working condition

According to the amendments, entities are no longer permitted to deduct revenue from the sale of items that are produced during the test phase from the cost of that property, plant and equipment. Instead, this revenue and the cost of the items are to be recorded in the statement of comprehensive income.

In line with the transitional provisions, the Group is only applying the amendments retrospectively to property, plant and equipment that was brought into working condition at or after the commencement of the earliest presented reporting period in which the amendments are first applied (initial application date).

This amendment had no impact on the consolidated financial statements.

Amendment to IFRS 1: Subsidiary as a first-time adopter later than its parent

The amendment permits a subsidiary that applies Paragraph D16(a) of IFRS 1 to measure cumulative translation differences on the basis of the amounts reported in the consolidated financial statements of the parent from the date on which the parent switched to IFRS.

However, this applies only if no adjustments are made to consolidation processes and the impact of the business combination during which the parent acquired the subsidiary. The amendment also applies for associates and joint ventures that apply IFRS 1.D16(a).

This amendment had no impact on the consolidated financial statements, as the Group is not a first-time adopter.

Amendment to IFRS 9: Fees included in the '10 per cent' test for derecognition of financial liabilities

The amendment clarifies which fees an entity must consider when assessing whether the conditions of a new or modified financial liability materially differ from those of the original financial liability. Only fees that were paid or received between the borrower and lender, including those that were either paid or received by the borrower or lender on behalf of the other party, are to be considered. No comparable proposed amendment exists for IAS 39 Financial Instruments: Recognition and Measurement.

In line with the transitional provisions, the Group is applying the amendment to financial liabilities that are modified or replaced at or after the start of the financial year in which the amendment was first applied (initial application date). This amendment had no impact on the consolidated financial statements, as no Group financial instruments were modified during the reporting period.

Amendment to IAS 41: Relevance of taxation in fair value measurements

The amendment removes the provision in Paragraph 22 of IAS 41, according to which cash flows from tax effects are not taken into account when measuring the fair value of biological assets.

This amendment had no impact on the consolidated financial statements, as the Group did not hold any assets that fall within the scope of IAS 41 on the reporting date.

3. Significant accounting judgements, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities and the accompanying disclosures as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. This may be particularly relevant for capitalized development costs.

Judgements

In the process of applying the Secop Group's accounting policies, management has made the following judgements, which have a significant effect on the amounts recognised in the consolidated financial statements:

Purchase price allocation

As part of the acquisition of the Secop Group, the Company valued the acquired assets and liabilities at market prices. The market prices were determined partly by means of expert opinions and partly by means of the Company's estimates and expectations regarding future business development and development of the industry in which the Secop Group operates.

Determination of the lease term of contracts with renewal and termination options – the Secop Group as lessee

The Secop Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

In the case of lease contracts that include extension and termination options, the Secop Group assesses whether it is reasonably certain that the option to renew or terminate the lease will or will not be exercised. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Secop Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g. construction of significant leasehold improvements or significant customisation to the leased asset).

Determination of the term of shareholder loans without fixed repayment dates

The Secop Group is mainly financed through loans from indirect shareholders. There are loans with a maximum term, but at the same time allow early repayments.

Concerning the dates of repayment of loans, the Secop Group takes decisions that are based on professional judgement. This means that the Secop Group takes into account all relevant factors that represent an economic incentive for it to make early repayments of the intermediate shareholder loans.

With regard to the other long-term shareholder loans, no early short-term repayments are planned, therefore the loans are shown under non-current liabilities (non-current liabilities to banks item) as at 31 December 2022.

Determination of the term of a special financing loan

A revolving special financing loan in the form of a bank overdraft/operating loan is also recorded under the current liabilities to banks. The term of the loan has been agreed until further notice, but no longer than 29 February 2024. The Secop Group fully repaid and terminated the loan in August 2022.

Determination of the term of the supplier financing programme in China

The current liabilities to banks include a supplier financing programme of the Chinese company, which is being used as a short-term financing facility. The line of finance is revolving and has a maximum term of 90 days from the submitted supplier invoices.

Determination of the term of a letter of credit programme in China

A bill of exchange programme for China is also reported under current liabilities to banks. The Company pays the trade payables with a bill of exchange, which can be redeemed by the supplier within 90 days.

Determination of the term of the notary escrow account (ESCROW account)

The notary escrow account was able to be used to finance investments within three years of the acquisition of the Secop Group (which took place on 7 September 2019). The available financial resources were fully used up to the reporting date of 31 December 2022.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The Secop Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Secop Group. Such changes are reflected in the assumptions when they occur.

Impairment of property, plant and equipment, intangible assets and rights-of-use assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use.

The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset.

The value in use calculation is based on a DCF (discounted cash flow) model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Secop Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. These estimates are most relevant to intangibles with indefinite useful lives recognised by the Secop Group. (Carrying amount as at 31 December 2022 T€ 8,867; previous year T€ 8,867).

Provision for expected credit losses of trade receivables

To avoid significant credit losses on trade receivables, the Secop Group concludes receivables insurances. The credit insurer generally insures the net claims for 90% and receives a premium. Fees for conducting any audit are charged separately.

For the uninsured part of the trade receivables, the Secop Group recognizes value adjustments for expected credit losses at the point in time when there are specific indications of a deterioration in the customer's creditworthiness. This is particularly the case if due receivables are not settled despite reminders or payment defaults for reasons such as bankruptcies are probable.

Further explanations are provided in note *12.3 Financial instrument risk management objectives and policies*). The carrying amount of trade receivables based on this judgement as at 31 December 2022 amounts T€ 39,265 (previous year T€ 52,437).

In some cases, trade receivables are sold to a factor in the Secop Group. As far as these trade receivables have been sold, there is no longer any credit risk for the Secop Group (real factoring).

Taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

The Secop Group has tax losses carried forward. These losses relate to subsidiaries that have a history of losses. Depending on the subsidiary, these tax losses carried forward may expire. Tax losses carried forward of a subsidiary cannot be offset against the taxable income of other group companies. If subsidiaries have sufficient taxable temporary differences and corresponding tax structuring options, deferred taxes are recognized on tax loss carried forward that cannot be forfeited. For the carrying amount of the deferred tax assets on tax losses carried forward, additional explanations can be found in note *8 Income tax*.

Defined benefit plans (pension benefits)

The cost of the defined benefit pension plan and other post-employment medical benefits and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the post-employment benefit obligation with at least an 'AA' rating or above, as set by an internationally recognised rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases are based on expected future inflation rates for the respective country. Possible financial effects of deviations in the key factors are determined using sensitivities.

Details on sensitivity analyses and the basis for estimates in the area of pension provisions can be found in note *21 Pensions and other post-employment benefits*. The carrying amount of the defined benefit pension plans was T€ 2,827 on the reporting date (previous year: T€ 4,085).

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) method. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a significant amount of management judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Development costs

The Secop Group capitalises costs for product development projects. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits. At 31 December 2022, the carrying amount of capitalised development costs was T€ 38,683 (previous year: T€ 34,060).

Warranties

Other provisions were recognized for warranty obligations from products sold. The assessment is made on the basis of empirical values for repairs and complaints in the past. It is to be expected that these costs will arise within the coming financial years. The underlying assumptions for the calculation of the warranty provision are based on the current sales level and the currently available information on complaints for all products sold within the warranty period. The carrying amount of the provisions for warranties on the reporting date was T€ 2,967 (previous year: T€ 3,482).

Leases - Estimating the incremental borrowing rate

The Secop Group cannot readily determine the interest rate implicit in the lease. Therefore, it uses its incremental borrowing rate to evaluate lease liabilities. The IBR is the rate of interest that the Secop Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Secop Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Secop Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating). The estimated incremental borrowing rate amounts to 2% (unchanged). The balance sheet positions affected are lease liabilities and the capitalized right-of-use assets. With regard to the carrying amounts, please see note *11 Right-of-use assets*.

Property, plant and equipment

When accounting for property, plant and equipment, judgements and estimates are required when determining economic useful lives consistently across the Secop Group, which are based on management estimates. As at 31 December 2022, the carrying amount of property, plant and equipment amounts to T€ 86,339 (previous year: T€ 85,621).

Inventories

When valuing inventories, the standard costs for manufacturing the products are estimated on the basis of operational experience and the expected price development of the main raw materials. In addition, judgements and estimates are made when determining overhead surcharges. The carrying amount of the inventories as of the reporting date was T€ 36,665 (previous year: T€ 50,483).

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4. Revenue and trade receivables

4.1 Disaggregated revenue information

The following table shows the disaggregation of the Secop Group's revenue from contracts with customers:

	2022	**2021**
	T€	**T€**
Type of goods and services*		
Compressors for commercial equipment	190,922	216,178
Compressors for mobile devices	79,660	75,770
Compressors for medical devices	7,181	8,518
Total revenue	277,763	300,466

*In the financial year, the Company amended its segmentation and adjusted the previous year's figures accordingly.

The disclosure of sales by type of goods and services is consistent with the sales figures that are specified for each reportable segment in accordance with IFRS 8 Business Segments.

Goods and services were transferred at a specific point in time.

4.2 Trade receivables

	31/12/2022	**31/12/2021**
	T€	**T€**
Trade receivables	39,265	52,437

The decrease in trade receivables on the reporting date is essentially due to the general decline in business volume during the financial year.

The Secop Group partly sells current trade receivables to a third party known as real factoring. All significant opportunities and risks are transferred to the buyer so that the receivables sold are fully derecognized and no sustained commitment is taken into account in the statement of financial position.

The carrying amount of the trade receivables transferred in connection with the factoring as of 31 December 2022 was T€ 12,646 (previous year: T€ 11,868). In total, the Secop Group had factoring lines in the amount of T€ 20,000 (previous year T€ 35,000) available. As of 31 December 2022, trade receivables qualifying as factoring exist, which are classified as financial assets at fair value through profit or loss (level 1) in the amount of T€ 297 (previous year: T€ 966).

4.3 Performance obligations

Information about the Secop Group's performance obligations is summarised below:

The performance obligation is satisfied upon delivery of the compressors. The payment is generally due within the period set out below (from delivery):

- Compressors for commercial equipment: 30 to 90 days from delivery
- Compressors for mobile devices: 30 to 90 days from delivery
- Compressors for medical devices: 30 to 90 days from delivery

The statutory warranty period is 2 years, for which corresponding provisions are made. In individual cases, contracts are signed with customers in which discounts are granted for a fixed number of product failures. However, these failures are capped with an amount, if the amount is exceeded, additional compensation is paid for the additional amount.

5. Group information

Fully consolidated subsidiaries

The following subsidiaries are included in the consolidated financial statements of Secop Group Holding GmbH (interest unchanged from previous year):

Name	Country of incorporation	% equity interest
Secop Inc.	Roswell, USA	100
Secop Compressors (Tianjin) Co. Ltd.	Tianjin, China	100
Secop s.r.o.	Zlaté Moravce, Slovakia	100
Secop Holding GmbH	Flensburg, Germany	100
Secop GmbH	Flensburg, Germany	100
Secop Italia S.r.l.	Milan, Italy	100
Secop Austria	Gleisdorf, Austria	100
Motor Competence Center Holding Flensburg GmbH	Flensburg, Germany	100

Ownership structure of the Secop Group

The ultimate holding company of Secop Group Holding GmbH is Dilasso Bath S.à r.l. based in Luxembourg, which holds all shares in Secop Group Holding GmbH through Dilasso Bath Invest S.à r.l., Luxembourg. Dilasso Bath S.à r.l., based in Luxembourg, prepares the consolidated financial statements for the largest and smallest group of companies. These can be obtained from the Company's registered office in the city of Luxembourg. Secop Group Holding GmbH, based in Flensburg, Germany, also compiles separate consolidated financial statements. These are submitted electronically to the provider of the German Federal Gazette in German and published electronically by the provider in the German Federal Gazette.

6. Financial instruments

According to IFRS 7, financial assets and financial liabilities are to be grouped in such a way that a distinction can be made between financial instruments that are measured at fair value and those that are measured at amortized cost.

The following table shows the carrying amounts of the individual financial assets and liabilities for each individual category of financial instruments.

31 December 2022

	Measurement category according to IFRS 9	Carrying amount T€	Fair value T€
Financial assets			
Cash and bank balances	At amortized cost	17,245	17,245
Other financial assets	At amortized cost	4,282	4,282
Trade receivables	At amortized cost	38,986	38,968
Trade receivables	At fair value through profit or loss	297	22
Financial liabilities			
Liabilities to banks	At amortized cost	106,739	106,739
Other financial liabilities	At amortized cost	6,549	6,549
Trade payables	At amortized cost	47,787	47,787
Interest-bearing loans and borrowings (current)	At amortized cost	10,060	10,060
Other financial liabilities (current)	At amortized cost	11,543	11,543

31 December 2021

	Measurement category according to IFRS 9	Carrying amount T€	Fair value T€
Financial assets			
Cash and bank balances	At amortized cost	13,049	13,049
Other financial assets	At amortized cost	4,693	4,693
Trade receivables	At amortized cost	51,471	51,471
Trade receivables	At fair value through profit or loss	966	966
Financial liabilities			
Liabilities to banks	At amortized cost	101,977	101,977
Other financial liabilities	At amortized cost	7,481	7,481
Trade payables	At amortized cost	72,102	72,102
Interest-bearing loans (current)	At amortized cost	0	0
Other financial liabilities (current)	At amortized cost	20,943	20,943

Management assessed that the fair values of cash and bank balances, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the current maturities of these instruments. Management makes specific valuation allowances as necessary.

The carrying amount of the financial assets corresponds to the maximum default risk. If default risks exist for these financial assets, these risks are recorded through value adjustments.

Management also states that fair values of non-current fixed-rate shareholder loans (recorded under interest-bearing loans) also approximate the carrying amounts, since the agreed interest and loan conditions with the appropriate reconciliation (surcharges for unsecured and subordination) are comparable to interest rate conditions observable on the market on the reporting date for secured and non-subordinated SME bonds.

The Company entered into hedging transactions in the 2022 financial year to hedge the foreign currency positions. The hedging transactions were suspended in 2022 due to the exchange rate development, but the Company is constantly monitoring exchange rates in order to avoid possible risks and potentially resume hedging transactions.

	2022		2021	
	Carrying amount	Fair value	Carrying amount	Fair value
	in T€	in T€	in T€	in T€
USD derivative	0	0	-98	-91

As no hedging relationships to hedge cash flows exist, these do not impact on the income statement or OCI.

Net gains and losses on financial instruments are shown as follows:

	Financial assets at amortized cost	Financial liabilities at amortized cost	Total
2022	T€	T€	T€
Interest income	913	0	913
Interest expenses	0	-10,347	-10,347
Impairments/write -ups	0	0	0
Net result	**913**	**-10,347**	**-9,434**

	Financial assets at amortized cost	Financial liabilities at amortized cost	Total
2021	T€	T€	T€
Interest income	993	0	993
Interest expenses	0	-9,911	-9,911
Impairments/write-ups	0	0	0
Net result	**993**	**-9,911**	**-8,918**

Security rights granted

The following securities were granted for the bond, which was recorded under interest-bearing loans:

- Pledging of shares in Secop GmbH, Secop s.r.o. and Secop Compressors (Tianjin) Co. Ltd.
- Pledging of trade receivables from Secop GmbH that are not subject to factoring
- Pledging of IP rights of Secop GmbH and Secop Holding GmbH
- Pledging of tangible assets (immovable tangible assets) of the Slovak subsidiary.
- Pledging of the land of the Slovak subsidiary.

The collateral was provided for the maximum term of the bond, i.e. until 28 January 2024.

Furthermore, within the scope of real factoring of Secop GmbH, the cession of trade receivables (purchased and not purchased receivables) of the Secop GmbH is granted as security.

7. Additional notes to the consolidated statement of comprehensive income

7.1 Other income

	2022	2021
	T€	**T€**
Net foreign exchange differences	15,453	5,383
Other income	11,442	3,014
Total other operating income	**26,895**	**8,398**

Regarding the badwill on the acquisition of the Secop Group, see note *6 Financial instruments*.

For the exchange differences, see also note *7.4 Other expenses*. The net exchange difference amounts to T€ 2,004.

The other income in the financial year mainly includes income from the reimbursement of residual costs (T€ 388), income from the reversal of value adjustments relating to trade receivables of T€ 951, income subsidies received as part of state Covid-19 support programmes in Slovakia of T€ 421 and income from the out-of-court settlement with the former shareholder Nidec Europe B.V. of T€ 8,891 concerning the pending proceedings with the arbitration tribunal relating to the outstanding purchase price instalments, among other things.

Please refer to the additional disclosures in note *7.4 Other expenses*.

7.2 Sales and distribution expenses

	2022 T€	2021 T€
Freight charges	8,549	8,371
Other sales and distribution expenses	12,476	14,112
Total sales and distribution expenses	**21,025**	**22,484**

The other sales and distribution expenses essentially comprise personnel costs in the amount of T€ 6,407 (previous year: T€ 7,203) and depreciation amounting to T€ 2,785 (previous year: T€ 2,733).

7.3 Administrative expenses

	2022 T€	2021 T€
Administrative expenses	19,392	18,910
Total administrative expenses	**19,392**	**18,910**

Administrative expenses include depreciation and amortization allocated to administration (T€ 1,606, previous year T€ 1,332), as well as administrative staff costs (T€ 8,000, previous year: T€ 8,334). In addition, the expenses for the 2022 financial year include consulting costs (T€ 4,416), IT costs (T€ 1,400) and insurance costs (T€ 1,110).

7.4 Other expenses

	2022 T€	2021 T€
Operations	0	90
Purchasing and logistics	624	756
Research and development costs	6,983	5,706
Net foreign exchange differences	13,449	7,752
Restructuring	197	2,378
Other expenses	2,579	1,564
Total other expenses	**23,832**	**18,247**

The restructuring expenses in 2021 include expenses associated with the restructuring of the production site in Austria (T€ 2,378). The restructuring was completed in 2021. In 2022, the restructuring expenses exclusively include personnel adjustments due to the order situation in Slovakia.

The other expenses item contains the depreciation and amortisation of capitalised development costs. In addition, other expenses include the value adjustments to the remaining inventories from the Household business of T€ 1,292.

Please refer to the additional disclosures in note *7.1 Other income*. In addition, expenses as a result of the disposal of assets in property, plant and equipment and intangible assets of T€ 11 are recorded.

For the exchange differences, see also note *7.1 Other income*.

Research and development costs of T€ 6,983 (previous year: T€ 5,706) were not capitalised.

7.5 Depreciation

	2022 T€	2021 T€
Included in cost of sales:	**7,143**	**5,068**
Included in other expenses:	**8,854**	**6,077**
Sales and distribution expenses	2,786	2,733
Administrative expenses	1,607	1,332
Other operating expenses	4,471	2,011

The depreciation includes scheduled and unscheduled depreciation. In the 2022 financial year, the remaining Household business was revalued. Unscheduled depreciation of T€ 2,369 (previous year: T€ 0) was reported for a remaining patent for the Household business. Please refer to the additional information on unscheduled depreciation in note *10 Intangible assets.*

7.6 Financial expenses

	2022 T€	2021 T€
Interest on loans and borrowings	10,118	9,717
Interest on lease liabilities	228	194
Other interest	0	0
Total financial expenses	**10,347**	**9,911**

7.7 Financial income

	2022 T€	2021 T€
Interest income on bank balances/bond	913	993
Other interest income		0
Total financial income	**913**	**993**

7.8 Cost of inventories

	2022 T€	2021 T€
Included in cost of sales:	**201,126**	**207,895**
Included in other expenses:	485	358
Sales and distribution expenses	163	52
Administrative expenses	137	115
Other operating expenses	186	191

7.9 Personnel expenses

	2022 T€	2021 T€
Included in the cost of sales:	16,946	19,182
Included in sales and distribution expenses:	6,407	7,203
Included in administrative expenses:	8,000	8,334
Included in other expenses:	8,327	10,189
Total employee benefit expenses	**39,681**	**44,907**
Thereof defined contribution plan expenses	623	618
Average number of employees	1,163	1,230

Personnel expenses for 2022 include the costs for social security and costs for retirement benefits of T€ 6,354 (previous year: T€ 6,852).

Number of employees included in personnel expenses on the basis of full-time equivalents (FTE):

	2022	2021
Production	892	998
General and administration	83	55
Research & development	152	142
Sales and marketing	36	35
Total	**1,163**	**1,230**

8. Income tax

The major components of income tax for the financial year from 1 January to 31 December 2022 are:

	2022 T€	2021 T€
Current taxes	-701	-1,296
Deferred taxes	-316	3,168
Total income tax	**-1,016**	**1,872**

For tax losses of T€ 46,312 (previous year: T€ 40,038) no deferred tax assets are recognized as they are not to be offset against the taxable profit of other companies in the Group and there will be no tax structuring options or other offset or usage options in the near future. The loss carryforwards do not expire according to the current legal situation.

Reconciliation of income tax expense and the accounting profit multiplied by applicable corporate tax rate for the financial year from 1 January to 31 December 2022 is as follows:

	2022	**2021**
	T€	**T€**
Profit before tax	**-1,583**	**135**
Expected tax income (previous year: tax expense) based on a corporate tax rate of 25%	396	-34
Tax rate differences	-854	-2,845
Trade tax effects	-363	-329
Non-deductible expenses	-1,645	-725
Permanent differences	-1,171	-6,431
Tax-free income	4,836	8,181
Capitalization of previously unrecognised tax losses	-747	3,628
Value adjustments/non recognition of tax losses	792	0
Effects of the tax group	-1,794	79
Non-periodic current and deferred taxes	-31	62
Non-deductible/allowable withholding tax	0	0
Other differences	-436	285
Actual income tax expense	**-1,016**	**1,872**

Deferred tax liabilities were not recognized for temporary differences of T€ 3,028 (previous year: T€ 2,556) in connection with shares in subsidiaries, as the Parent is able to control the timing of the reversal of the temporary differences and it is likely that the temporary difference will not reversed in the foreseeable future.

Deferred tax assets	**31/12/2022 T€**	**31/12/2021 T€**
Trade receivables	336	1,104
Intangible assets	1,411	4,034
Other assets	1	0
Inventories	821	485
Other financial assets	0	152
Other non-financial assets	1,394	1,675
Other non-financial liabilities	739	861
Net employee defined benefit liabilities	259	679
Provisions	660	544
Property, plant and equipment	2,177	156
Loss carried forward	15,812	14,061
	23,610	23,752
Set-off	-23,300	-22,619
	310	**1,133**

Deferred tax liabilities	**31/12/2022 T€**	**31/12/2021 T€**
Trade receivables	0	0
Inventories	0	0
Intangible assets	17,189	17,517
Other financial liabilities	404	186
Interest-bearing loans and	0	0
borrowings	15,192	15,192
Net employee defined benefit liabilities	0	0
Provisions	6,576	6,600
Property, plant and equipment	39,361	39,495
	23,300	22,619
Set-off	**-16,061**	**-16,876**

On the reporting date, the Secop Group has losses carried forward totalling T€ 143,060 (previous year: T€ 121,540).

9. Property, plant and equipment

	Land, land rights and buildings, including buildings on third-party land	Office properties	Assets under construction	Plant, machinery and equipment	Operating and business equipment	Total
	T€	T€	T€	T€	T€	T€
Cost or valuation						
As at 1 January 2022	4,956	20,874	4,284	193,189	5,024	**228,326**
Exchange differences	0	-2	-44	-982	-18	**-1,045**
Additions	0	34	3,217	5,931	136	**9,317**
Reclassifications	0	459	-4,122	3,506	151	**-7**
Disposals	0	-52	-21	-9,713	-732	**-10,518**
As at 31 December 2022	**4,956**	**21,313**	**3,314**	**191,930**	**4,561**	**226,074**
Depreciation and impairments						
As at 1 January 2022	0	-2,321	-1,194	-135,839	-3,352	**-142,705**
Exchange differences	0	1	0	510	12	**522**
Depreciation in the financial year	0	-577	21	-6,949	-441	**-7,946**
Write-ups	0	0	0	0	0	**0**
Disposals	0	52	0	9,713	732	**10,497**
Reclassifications	0	0	-102	0	0	**-102**
As at 31 December 2022	**0**	**-2,844**	**-1,275**	**-132,566**	**-3,049**	**-139,734**
Net carrying amount						
As at 1 January 2022	4,956	18,553	3,090	57,350	1,673	**85,621**
As at 31 December 2022	**4,956**	**18,468**	**2,039**	**59,365**	**1,512**	**86,339**

	Land, land rights and buildings, including buildings on third-party land	Office properties in the eurozone	Assets under construction	Plant, machinery and equipment	Operating and business equipment	Total
	T€	T€	T€	T€	T€	T€
Cost or valuation						
As at 1 January 2021	4,956	19,968	11,337	172,423	4,132	**212,816**
Exchange differences	0	12	421	3,694	78	**4,206**
Additions	0	11	8,650	3,240	202	**12,103**
Reclassifications	0	883	-15,948	14,140	916	**-10**
Disposals	0	0	-176	-308	-305	**-789**
As at 31 December 2021	**4,956**	**20,874**	**4,284**	**193,189**	**5,024**	**228,326**
Depreciation and impairments						
As at 1 January 2021	0	-1,848	-1,195	-128,890	-3,208	**-135,141**
Exchange differences	0	-3	0	-2,197	-56	**-2,256**
Depreciation in the financial year	0	-470	1	-5,015	-368	**-5,850**
Write-ups	0	0	0	0	0	**0**
Disposals	0	0	0	262	280	**541**
Reclassifications	0	0	0	0	0	**0**
As at 31 December 2021	**0**	**-2,321**	**-1,194**	**-135,839**	**-3,352**	**-142,705**
Net carrying amount						
As at 1 January 2021	4,956	18,120	10,142	43,534	925	**77,675**
As at 31 December 2021	**4,956**	**18,553**	**3,090**	**57,350**	**1,673**	**85,621**

In the plant, machinery and equipment item, tools and consumables totalling T€ 2,136 were capitalised in line with IAS 36 in the 2022 financial year and reclassified from other current non-financial assets.

With regard to the contractual obligations from the purchase of property, plant and equipment existing on the reporting date, reference is made to the explanations in note *23 Contingent liabilities and other financial obligations*.

The property, plant and equipment owned by the subsidiary Secop s.r.o. (immobile tangible assets amounting T€ 23,188 as at 31 December 2022) were pledged to secure the bond issued in 2020, which is included under the interest-bearing loan. Please refer to the disclosures in note *6 Financial instruments* (security rights granted).

10. Intangible assets

Cost or valuation	Development costs T€	Customer base, patents, and licences with definite useful lives T€	Licences with indefinite useful lives T€	Total T€
As at 1 January 2022	35,897	21,995	8,867	**66,758**
Exchange differences	-98	-16	0	**-115**
Additions	8,750	0	0	**8,750**
Reclassifications	-152	159	0	**7**
Disposals	0	-147	0	**-147**
As at 31 December 2022	**44,396**	**21,990**	**8,867**	**75,253**
Depreciation and impairments				
As at 1 January 2022	-1,748	-6,122	0	**-7,871**
Exchange differences	0	16	0	**16**
Depreciation	-3,920	-2,701	0	**-6,621**
Write-ups	0	0	0	**0**
Reclassifications	0	147	0	**147**
Disposals	0	0	0	**0**
As at 31 December 2022	**-5,668**	**-8,660**	**0**	**-14,329**
Net carrying amount				
As at 1 January 2022	34,148	15,872	8,867	**58,888**
As at 31 December 2022	**38,727**	**13,330**	**8,867**	**60,924**

Cost or revaluation	Development costs T€	Customer base, patents, and licences with definite useful lives T€	Licences with indefinite useful lives T€	Total T€
As at 1 January 2021	28,145	21,766	8,867	**58,779**
Exchange differences	275	76	0	**351**
Additions	7,948	24	0	**7,972**
Reclassifications	-472	461	0	**-11**
Disposals	0	-332	0	**-332**
As at 31 December 2021	**35,897**	**21,995**	**8,867**	**66,758**
Depreciation and impairments				
As at 1 January 2021	-198	-3,704	0	**-3,902**
Exchange differences	0	-74	0	**-74**
Depreciation	-1,551	-2,677	0	**-4,227**
Write-ups	0	0	0	**0**
Reclassifications	0	332	0	**332**
Disposals	0	0	0	**0**
As at 31 December 2021	**-1,748**	**-6,122**	**0**	**-7,871**
Net carrying amount				
As at 1 January 2021	27,947	18,062	8,867	**54,876**
As at 31 December 2021	**34,148**	**15,872**	**8,867**	**58,888**

In the financial year there was a special depreciation of a patent for compressors for the former Household segment of T€ 2,369, which the Company considers no longer usable.

The remaining useful life of the capitalized development costs, customer base, patents and licenses with a limited useful life is between 6 and 8 years.

The IP rights ("development costs") of the subsidiaries Secop Holding GmbH and Secop GmbH owned by the Secop Group were pledged to secure the bond issued in 2020, which is included in the interest-bearing loan. Please refer to the disclosures in note *6 Financial instruments* (security rights granted). The development costs include intangible assets in development of T€ 29,037 (previous year: T€ 21,255).

With regard to the contractual obligations from the acquisition of intangible assets, refer to the explanations in note *23 Contingent liabilities and other financial obligations*.

1. *Intangible assets with indefinite useful lives*

For impairment testing, the assets acquired within the business combination with an indefinite useful life are allocated to the Secop cash-generating unit, which comprises the entire Secop Group.

Carrying amount of brands allocated to the CGU:

	31/12/2022 T€	**31/12/2021 T€**
Brands	8,867	8,867

The Secop Group performed its annual impairment test of the brand in the last quarter of 2022.

Secop cash generating unit

The recoverable amount of the Secop CGU is determined based on a value in use calculation using cash flow projections from budgets approved by management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 8.5%. Cash flows beyond the five-year period are extrapolated using a 1.0% growth rate that is half the expected long-term inflation rate of 2%.

The value in use of the brands amounting to T€ 8,867 equals the value determined in the course of the acquisition of the Secop Group.

11. Right-of-use assets

Secop Group as a lessee

The Secop Group has signed lease contracts for buildings, plant, machinery and equipment and other equipment used in its operations. Lease contracts for buildings have a term of 10-15 years; leases for plants and machinery generally have lease terms between 5 and 10 years.

In the case of other equipment, the lease term is generally between 3 and 5 years. The Secop Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Secop Group is restricted from assigning and subleasing the leased assets.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Office properties in eurozone	Office properties in USA	Plant, machinery and equipment	Operational and bus. equipm.	Total
	T€	T€	T€	T€	T€
Cost or valuation					
As at 1 January 2022	4,155	3,877	842	626	**9,500**
Exchange differences	0	-95	0	-3	**-98**
Additions	235	421	96	188	**940**
Reclassifications	0	0	-106	106	**0**
Disposals	0	0	-60	-70	**-130**
As at 31 December 2022	**4,390**	**4,203**	**772**	**847**	**10,212**
Depreciation and impairments					
As at 1 January 2022	-908	-457	-439	-280	**-2,084**
Exchange differences	0	38	0	2	**40**
Depreciation in the financial year	-537	-535	-227	-142	**-1,441**
Disposals	0	24	22	70	**117**
Write-up/write-down	0	0	0	0	**0**
Reclassifications	0	0	138	-138	**0**
As at 31 December 2022	**-1,446**	**-930**	**-506**	**-487**	**-3,368**
Net carrying amount					
As at 1 January 2022	3,247	3,420	403	346	**7,416**
As at 31 December 2022	**2,944**	**3,274**	**267**	**360**	**6,844**

	Office properties in eurozone	Office properties in USA	Plant, machinery and equipment	Operational and bus. equipment	Total
	T€	T€	T€	T€	T€
Cost or valuation					
As at 1 January 2021	6,304	0	723	472	**7,499**
Exchange differences	0	445	0	4	**450**
Additions	2,362	207	119	377	**3,066**
Reclassifications	-3,273	3,273	0	21	**21**
Disposals	-1,239	-48	0	-249	**-1,535**
As at 31 December 2021	**4,155**	**3,877**	**842**	**626**	**9,500**
Depreciation and impairments					
As at 1 January 2021	-1,882	0	-242	-279	**-2,403**
Exchange differences	0	-88	0	-4	**-92**
Depreciation in the financial year	-302	-405	-197	-163	**-1,067**
Disposals	1,239	36	0	173	**1,448**
Write-up/write-down	37	0	0	-8	**29**
Reclassifications	0	0	0	0	**0**
As at 31 December 2021	**-908**	**-457**	**-439**	**-280**	**-2,084**
Net carrying amount					
As at 1 January 2021	4,422	0	481	193	**5,096**
As at 31 December 2021	**3,247**	**3,420**	**403**	**346**	**7,416**

Set out below are the carrying amounts of lease liabilities (included under interest-bearing loans and borrowings) and the movements during the period:

	2022 T€	2021 T€
As at 1 January	7,682	5,425
Additions	940	3,066
Accretion of interest	228	194
Payments	-1,729	-1,003
As at 31 December	**7,121**	**7,682**
Thereof current	1,356	1,134
Thereof non-current	5,765	6,548

In the financial year, expenses for leasing of buildings and other plants amounting to T€ 0 (previous year: T€ 212) and for leasing of low-value assets amounting to T€ 1 (previous year: T€ 35) were incurred.

12. Financial assets and liabilities

12.1 Financial assets

	31/12/2022 T€	31/12/2021 T€
Trade receivables	39,265	52,437
Escrow account	0	101
Other financial assets	4,282	4,693
Total financial assets	**43,548**	**57,130**
Total current	43,548	57,130
Total non-current	0	0
Total	**43,548**	**57,130**

The escrow account was able to be used by Secop to finance investments in improvements to existing production processes and further development of compressors that were produced in Austria until mid-2020 and are produced in Slovakia. The amount provided was able to be accessed within three years of the acquisition of the Secop Group and was administered by an independent body that decided on the release of the financial resources. Therefore, Secop had to provide evidence of the investments in the form of project description, quotes, supplier invoices and accounting records in SAP. The information provided was reviewed by the independent body and, if the circumstances were appropriate, the release of the funds for transfer to Secop was arranged. In the reporting period, such funds in the amount of T€ 101 (precious year: T€ 8,880) were granted to the Secop Group. The Secop Group accessed all remaining funds in the 2022 financial year.

The other financial assets as at 31 December 2022 include a rental deposit of T€ 840 (previous year: T€ 1,000) paid in the financial year, the repayments of which will be made gradually within four years from the start of the second rental year in 2023. Others financial assets as at 31 December 2022 include current receivables from the factor from the agreed risk retention in the amount of T€ 2,374 that were settled in 2023.

12.2 Interest-bearing loans and other financial liabilities

	%	Maturity	31/12/2022 T€	31/12/2021 T€
Current				
Lease liabilities	f 2.0	2023	571	202
Purchase price liability Nidec	v 8.0	2023	10,972	20,643
Liabilities to banks CN	v 3.85	2023	10,060	0
Total current interest-bearing loans and borrowings			**21,603**	**20,845**
Non-current				
Lease liabilities	f 2.0	2030	6,549	7,481
Bond T€ 50,000	v 8.328	2024	37,620	37,181
Shareholder loan T€ 221	f 4.0	2026	250	242
Shareholder loan T€ 40,000	f 8.0	2029/ PY: 2020	12,481	11,684
Shareholder loan T€ 51,379	f 8.0	2029	56,387	52,786
Other loans	f 8.0	2022	0	85
Total non-current interest-bearing loans and borrowings			**113,288**	**109,458**
Total interest-bearing loans and borrowings			**134,891**	**130,303**

Interest rate: v for variable; f for fixed

The Secop Group reached an out-of-court settlement with former shareholder Nidec Europe B.V. in relation to all items of the pending arbitration proceedings, which also included the remaining purchase price. Accordingly, the Secop Group will pay a total amount of T€ 13,000 to Nidec in the first quarter of 2023 to settle all mutual items of the arbitration proceedings. The reported liability of T€ 10,972 includes current receivables from Nidec that originate from other Secop claims.

12.3 Financial instrument risk management objectives and policies

The Secop Group’s principal financial liabilities comprise interest-bearing loans and borrowings and other financial liabilities as well as trade payables. The main purpose of these financial liabilities is to finance the Secop Group’s operations.

The Secop Group’s principal financial assets include trade receivables as well as cash and bank balances that derive directly from its operations.

The Secop Group is exposed to a number of financial risks in the course of its business operations, including market risk, credit and liquidity risk. Secop Group management oversees the management of these risks.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risks, such as raw material risk (see “Procurement risk”). Financial instruments affected by market risk primarily include cash and bank balances, variable-interest loans and other financial liabilities.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Secop Group controls its interest rate risk by agreeing fixed-rate loan conditions and issuing a variable-rate bond, whereby early repayment options are ensured for long-term loans and bonds. This makes it possible to react flexibly through early repayments in case interest rates decrease. The conditions for bond liabilities also stipulate that special repayments are possible within a defined framework, as well as the targeted purchase of bond coupons on the market. On the other hand, the Secop Group can sell bond tranches back to the market in order to increase liquidity.

Interest rate sensitivity analysis

The following table shows the sensitivity to a reasonably possible change in variable interest rates for the affected non-current bond. If all other variables remain unchanged, the Group's pre-tax profit will be influenced as follows due to the effects on the variable-interest bond:

	Increase/decrease in basis points	Effect on profit before tax
2022		T€
EUR	+100	+375
EUR	-100	-375
2021		
EUR	+100	+375
EUR	-100	0

Foreign currency risk

Foreign currency risk is the risk that the fair value of assets and liabilities or future cash flows will fluctuate because of changes in foreign exchange rates. The Secop Group's exposure to the risk of changes in foreign exchange rates relates to the Secop Group's operating activities (when revenue and/or expense is denominated in a foreign currency) and the Secop Group's net investments in foreign subsidiaries, especially with regard to the USD and RMB. Through the targeted management of Group purchasing, Secop endeavours to close out open currency positions to the extent possible and so achieve a "natural hedge". In addition, Secop constantly monitors price developments in order to employ hedging instruments as needed on the basis of corporate planning. Exchange rate fluctuations can also have a negative impact on the demand side, if currency prices allow competitors from other countries to offer cheaper products. Secop management currently considers the currency risk as moderate.

Commodity price risk

The prices and availability of certain commodities can have an impact on the Secop Group. It is exposed to market-related price fluctuations for some commodities, e.g. copper, steel and aluminium. In addition, some commodities are exclusively traded in foreign currencies, so exchange rates have an influence on commodity prices. Moreover, risks related to the timely delivery of input materials exist, particularly for materials for which only one supplier is available (single sourcing). Changes to procurement prices are passed on to customers wherever possible. Furthermore, long-term agreements on procurement prices are reached where possible. The dependence on individual suppliers is countered by qualifying several sources where possible. Overall, Secop management considers this risk as low.

Default risk

Credit default risk is the risk that a business partner does not meet its obligations under a financial instrument or customer framework agreement leading to a financial loss. In the course of its business operations, the Secop Group is exposed to credit default risks (in particular with regard to trade receivables) as well as risks in connection with financing activities, including those from cash and bank balances.

Credit default risk with regard to cash and bank balances is monitored by the Controlling department. The Secop Group counters the risk of bank failure through a diversified portfolio of banks, the selection of banks according to their offer, benefit and reliability for the Secop Group, but also according to the rating of the respective banks. In addition, the amount of foreign and domestic bank balances is regularly monitored in order to limit the amount of possible defaults, if necessary.

Trade receivables

The Secop Group uses a multi-stage process to counter the risk of customer defaults. First, various mechanisms (credit insurance and rating agencies) are used to review the solvency of customers. Moreover, overdue customer receivables are discussed with the sales directors in a weekly meeting and, where applicable, actions are taken ranging from the adjustment of the terms of payment through to the legal enforcement of the receivables. In addition, trade receivables are partly sold through real factoring, thus passing the credit risk on to the factor. Management therefore considers the default risk for trade receivables to be a moderate risk.

The Secop Group recognizes impairments for expected credit losses on trade receivables when there are specific indications of a deterioration in the customer's creditworthiness. This is particularly the case if payable claims are not settled despite reminders or payment defaults are likely for other reasons such as bankruptcies. The Secop Group evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in various countries and industries and operate in largely independent markets.

The credit lines for business partners are reviewed annually by management and may be updated during the year. They are set in order to minimize the risk concentration and to keep financial losses due to potential default of a business partner as low as possible.

Liquidity risk

Liquidity risk is the risk that the cash and cash equivalents required to settle payments due cannot be procured or only at high refinancing costs. This also includes the risk of the early repayment of financial liabilities, which would be highly relevant for the liquidity of the Secop Group.

The bond issued in 2020 obliges the Secop Group to adhere to certain financial covenants and other contractual obligations. If there were a break in the financial covenants and other contractual obligations and if this break could not be remedied or alternative sources of finance could not be found in the short term, this would have an impact on the Secop Group's ability to continue as a going concern. The Company counters the risk through regular reporting and a preventive regular review of the contractual financial covenants and other contractual obligations to be observed.

The Secop Group monitors this risk through active liquidity management, which offers the following options:

- Active management of working capital and future investments,
- Active management of the "escrow account" until the end of its term; if necessary, use of a "Revolving Credit Facility" (from 1 May 2021) in Slovakia and
- If necessary, expansion of the factoring lines as well as
- The option to increase local bank lending volume in China.
- Targeted purchase and sale of the issued bond.

Management considers the contractual hurdles in the context of bond financing to be relatively moderate. The liquidity risk is therefore classified as low.

The Secop Group also monitors the risk of any liquidity shortage using a liquidity planning tool. This has a planning period of 13 weeks and shows all liquidity-relevant processes of all Secop units worldwide on a weekly basis. A summary and any recommendations for action are reported to management.

In the following maturity analyses, the contractually agreed undiscounted interest and principal payments of financial liabilities as at the reporting date are shown. Planned figures for new liabilities in the future were not taken into account. Variable interest payments were included based on interest rates valid on the respective reporting date. With regard to the interest and repayment conditions of interest-bearing loans and borrowings and other financial liabilities, please refer to the disclosures in note 12.2 *Interest-bearing loans and other financial liabilities*.

2022	Carrying amount	Due within one year	Due between 1 and 5 years	Due over 5 years
	T€	T€	T€	T€
Trade payables	47,787	47,787	0	0
Liabilities to banks	116,799	10,060	42,406	64,333
dv. repayment		*10,060*	*41,774*	*56,149*
dv. interest		*0*	*632*	*8,184*
Lease liabilities	7,121	571	6,549	0
Other financial liabilities	10,972	10,972	0	0
	182,678	**69,390**	**48,955**	**64,333**
dv. repayment		*69,390*	*48,323*	*56,149*
dv. interest		*0*	*632*	*8,184*

2021	Carrying amount	Due within one year	Due between 1 and 5 years	Due over 5 years
	T€	T€	T€	T€
Trade payables	72,102	72,102	0	0
Liabilities to banks	101,977	0	41,746	60,231
dv. repayment		*0*	*41,428*	*56,139*
dv. interest		*0*	*318*	*4,092*
Lease liabilities	7,683	202	7,481	0
Other financial liabilities	20,741	20,741	0	0
	202,504	**93,046**	**49,227**	**60,231**
dv. repayment		*93,046*	*48,909*	*56,139*
dv. interest		*0*	*318*	*4,092*

The goal of the Secop Group is to maintain a balance between continuously covering financial resource requirements and ensuring flexibility through the use of overdrafts, bank loans, shareholder loans, factoring, bond liabilities and lease contracts. Any obligations arising from compliance with financial covenants are continuously monitored by management.

The bond contract concluded in the previous year obliges the Secop Group to adhere to financial covenants and other contractual obligations. If there were a break in the financial covenants and other contractual obligations and if this break could not be remedied or alternative sources of finance could not be found in the short term, this would have an impact on the Secop Group's ability to continue as a going concern. The Company counters the risk through regular reporting and preventive reviews of the contractual covenants and other contractual obligations by the central controlling department in coordination with the management board member responsible for finance. The financial covenants and other obligations from the bond contract have so far been met.

Excessive risk concentration

Concentrations of risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of risk indicate the relative sensitivity of the Secop Group's performance to developments affecting a particular industry.

12.4Changes in liabilities arising from financing activities

	01/01/2022	Cash-effective changes	Other	**31/12/2022**
	T€	**T€**	**T€**	**T€**
Current interest-bearing loans and borrowings (excluding items listed below)	**0**	5,309	4,751	**10,060**
Current lease liabilities	**202**	-202	572	**572**
Non-current interest-bearing loans and borrowings (excluding items listed below)	**101,977**	-80	4,842	**106,739**
Non-current lease liabilities	**7,481**	-1,526	595	**6,549**
Total liabilities from financing activities	**109,660**	**3,500**	**10,760**	**123,920**

	01/01/2021	Cash-effective changes	Other	**31/12/2021**
	T€	**T€**	**T€**	**T€**
Current interest-bearing loans and borrowings (excluding items listed below)	**2,237**	-2,307	70	**0**
Current lease liabilities	**173**	-173	202	**202**
Non-current interest-bearing loans and borrowings (excluding items listed below)	**103,242**	-8,525	7,260	**101,977**
Non-current lease liabilities	**5,252**	-831	3,058	**7,481**
Total liabilities from financing activities	**110,904**	**-11,836**	**10,590**	**109,660**

The "Other" column shows the non-cash effects from the reclassification, as a result of the passage of time, of the non-current portion of the interest-bearing loans and borrowings, including leasing liabilities, to current liabilities and the effects of accrued but not yet paid interest on interest-bearing loans and borrowings, including leasing liabilities as well as exchange rate differences and the effective interest rate (since 2020).

13. Inventories

	31/12/2022 T€	31/12/2021 T€
Raw materials	17,607	20,324
Work in progress	3,599	3,439
Finished goods and services	15,460	26,719
Total inventories	**36,665**	**50,483**

The costs of inventories incurred in connection with continuing operations were recognized as expenses during the financial year in the amount of T€ 201,126.

The total amount of the acquisition and production costs of the inventories recognized as expenses includes value adjustments on the net realizable value in the amount of T€ 1,709 and write-ups in the amount of T€ 0. The value adjustments are primarily due to the measurement of inventories in connection with the former Household business.

14. Trade receivables

	31/12/2022 T€	31/12/2021 T€
Receivables from third-party customers	42,889	57,743
Allowance for expected credit losses	-3,624	-5,306
	39,265	**52,437**

Trade receivables are non-interest bearing and generally have a term of 30 to 90 days.

The write-downs of trade receivables, which are valued at amortized cost, developed as follows in the financial year:

01/01/2022	Utilisation	Reversal	Addition	**31/12/2022**
T€	T€	T€	T€	T€
5,306	0	1,682	0	3,624

Customer receivables of the German Secop company are partially secured by trade credit insurance. Customer receivables of the foreign Secop companies are not subject to trade credit insurance, but are partially secured by letters of credit or comparable instruments.

No enforcement measures were required for any customer receivables.

Trade receivables from contracts with customers correspond to the balance of trade receivables item.

In all other respects, please refer to the disclosures in note *4.2 Trade receivables*.

15. Cash and bank balances

	31/12/2022	31/12/2021
	T€	T€
Cash at banks	17,244	13,046
Cash at hand	1	3
	17,245	**13,049**

Cash at banks earns interest at variable rates based on daily bank deposit rates.

16. Subscribed capital and reserves

Subscribed capital	**31/12/2022**	**31/12/2022**
	T€	T€
Paid-in capital	**25**	**25**

The nominal value of each share (capital contribution) corresponds to € 1.00. Rights associated with the share are property and administrative rights as per the GmbHG. This includes the right to participate in profits and the right to vote.

Capital reserves	**2022**	**2021**
	T€	T€
As at 1 January	**1,975**	**1,975**
Changes in the reporting period	0	0
As at 31 December	**1,975**	**1,975**

On 5 September 2019, shareholders made a contribution to the capital reserves of the Company in line with §272 (2) No.4 HGB.

Retained earnings	**2022**	**2021**
	T€	T€
As at 1 January	**33,281**	**32,722**
Changes in the reporting period	-1,014	559
As at 31 December	**32,267**	**33,281**

The retained earnings consist of the badwill from the acquisition of the Secop Group in 2019 and the current loss.

Other reserves	**2022**	**2021**
	T€	**T€**
As at 1 January	**4,416**	**-1,565**
Changes in the reporting period	-693	5,981
As at 31 December	**3,723**	**4,416**

The change in other reserves results from the foreign currency translation of the subsidiaries in China and the USA as well as the valuation of the pension provision.

Other comprehensive income/loss	Revaluation reserve	Reserve for cash flow hedges	Reserve for currency differences	Deferred taxes	**Total**
	T€	T€	T€		T€
Derivative		98			98
Currency translation foreign companies			-597		-597
Revaluation of defined benefit plans	1,225				1,225
Revaluation of deferred taxes				235	235
	1,225	**98**	**-597**	**235**	**961**

17. Provisions

	Warranty	Restructuring	Commissions	Personnel expenses	Other	Total
	T€	T€	T€	T€	T€	T€
2022						
01 January	**3,482**	**84**	**3,314**	**362**	**4,665**	**11,906**
Addition	1,377	0	2,456	99	7,390	**11,322**
Utilisation	-953	-60	-3,052	-80	-2,555	**-6,698**
Reversal	-899	-24	-512	-12	-3,215	**-4,663**
Exchange differences	-39	0	-7	0	55	**9**
31 December	**2,968**	**0**	**2,200**	**369**	**6,339**	**11,875**
Thereof current	2,304	0	2,200	17	1,680	6,200
Thereof non-current	664			352	4,659	5,676
2021						
01 January	**3,505**	**5,912**	**2,237**	**801**	**3,295**	**15,750**
Addition	1,133	297	3,114	137	4,549	**9,231**
Utilisation	-1074	-5,624	-2,134	-18	-2,063	**-10,912**
Reversal	-228	-502	-218	-558	-1,198	**-2,705**
Exchange differences	145	0	315	0	82	**543**
31 December	**3,482**	**84**	**3,314**	**362**	**4,665**	**11,906**
Thereof current	2,299	84	3,314	14	3,620	9,331
Thereof non-current	1,183			348	1,045	2,576

The expected future cash outflows from long-term provisions are all due in 2 to 5 years.

Warranties

The warranty provisions fell year-on-year, primarily due to reversals from the previous year.

Restructuring

The restructuring provision primarily relates to the discontinuation of certain product lines at the Austria site, which was fully completed in 2021.

Commissions

A provision for commissions and customer bonuses was recognised because the Secop Group is contractually obliged to pay commissions or bonuses for sales made.

Personnel expenses

The provisions for personnel expenses relate to anniversary bonuses, leave entitlements as well as entitlements from partial retirement.

Other provisions

Other provisions contain the tax provisions as well as provisions for outstanding purchase invoices.

18. Trade payables

	31/12/2022	31/12/2021
	T€	**T€**
Trade payables	47,787	72,102
	47,787	**72,102**

Trade payables are non-interest bearing and generally have a term of 60 to 90 days.

19. Other financial liabilities

The other financial liabilities consist of current financial liabilities (T€ 11,543, previous year: T€ 20,943) and non-current financial liabilities (T€ 7,030, previous year: T€ 9,657). The current financial liabilities mainly relate to a purchase price liability outstanding as of the reporting date (T€ 10,971, previous year: T€ 20,643) from the acquisition of the Secop Group from the seller, the Nidec Group. This also includes current lease liabilities (T€ 571; previous year: T€ 202). As in the previous year, non-current financial liabilities are long-term lease liabilities. Please refer to the additional disclosures in note *12.2 Interest-bearing loans and other financial liabilities*.

20. Liabilities to banks

	31/12/2022	31/12/2021
	T€	**T€**
Current		
Liabilities to banks CN	10,060	0
Total current interest-bearing liabilities to banks	**10,060**	**0**
Non-current		
Bond		
T€ 50,000	37,620	37,181
Shareholder loan T€ 221	250	242
Shareholder loan T€ 6,100	0	85
Shareholder loan T€ 40,000	12,481	11,684
Shareholder loan T€ 51,379	56,387	52,786
Special funding	0	0
Total non-current interest-bearing liabilities to banks	**106,739**	**101,977**

Please refer to the additional disclosures in note *12.2 Interest-bearing loans and other financial liabilities*.

21. Pensions and other post-employment benefits

Net employee defined benefit liabilities

	31/12/2022	31/12/2021
	T€	T€
Pension plan Secop GmbH in Germany	2,769	4,004
Other pension plans	58	81
Total	**2,827**	**4,085**

Secop GmbH in Germany has set up a defined benefit pension plan (not funded). The defined benefit pension plan provides for the payment of lifelong old-age benefits, widows' and widowers' benefits. The basic amount of old age allowance is € 72.53 per month and increases by € 1.28 per month for each additional year of service. The widows' and widowers' benefit is 60% of the old-age benefit. From 01/01/1998, the Company pension scheme was closed to new entrants. In this respect, the Secop Group is only exposed to risks from the development of pensions and from demographic changes due to the commitments already in place.

The following tables summarise the components of net benefit expense recognised in the statement of comprehensive income and the amounts recognised in the statement of financial position for the respective plans:

Pension plan Secop GmbH in Germany

Net benefit expense (recognised in profit or loss)	2022	2021
	T€	T€
Current service expense	4	4
Interest expense for the benefit obligation	54	35
Net benefit expense	**58**	**39**

Changes in the present value of the defined benefit obligations

	T€
Defined benefit obligation as at 1 January 2022	**4,004**
Interest expense	54
Current service expense	4
Actuarial result	-1,201
Benefits paid	-92
Defined benefit obligation as at 31 December 2022	**2,769**

	T€
Defined benefit obligation as at 1 January 2021	**4,514**
Interest expense	35
Current service expense	4
Actuarial result	-461
Benefits paid	-88
Defined benefit obligation as at 31 December 2021	**4,004**

The principal assumptions used in determining pension and post-employment benefit obligations are shown below:

	2022 %	2021 %
Discount rate	4.18	1.38
Future salary increases	0.0	0.0
Future pension cost increases	1.5	1.5

A quantitative sensitivity analysis for significant assumptions as at 31 December is shown below:

	Impact on defined benefit obligations	
	31/12/2022	**31/12/2021**
Assumptions for the pension plan in Germany	**T€**	**T€**
Future pension cost increases		
0.5% increase	143	277
0.5% decrease	-133	-253
Discount rate:		
1.0% increase	-323	-590
1.0% decrease	393	750
Future salary increases:		
0.5% increase	0	0
0.5% decrease	0	0
Life expectancy of pensioners:		
Increase by 1 year	69	136
Decrease by 1 year	-71	-136

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions as at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

The average duration of the performance-based benefit plan obligation at the end of the reporting period is 13 years.

For the following financial year, payments in the amount of T€ 113 (previous year: T€ 92) are expected.

22. Other non-financial assets and other non-financial liabilities

22.1 Other non-financial assets

	31/12/2022 T€	31/12/2021 T€
Non-financial claims	925	1,356
Non-financial assets	3,338	4,999
VAT receivables	919	3,547
Others	1,404	1,664
	6,585	**11,566**
Thereof current	6,585	11,566

The non-financial receivables mainly relate to receivables from grants applied for research work, advance rent payments and deposits. For receivables from grants applied for research work, all conditions are met; there are no major uncertainties regarding the receipt of these grants.

The non-financial assets mainly relate to materials that are required for ongoing repairs and maintenance (so-called "MRO - maintenance, repair and operations materials"). In the financial year, the Company reclassified tools and materials with an expected useful life of more than one year, which can be capitalised in line with IAS 36, of T€ 2,136 to property, plant and equipment.

22.2 Other non-financial liabilities

	31/12/2022 T€	31/12/2021 T€
Income tax liabilities	40	0
VAT liabilities	0	0
Other staff liabilities	1,894	4,681
Social security liabilities	1,033	970
Prepaid expenses	0	0
Debtors with credit balances	1,030	600
Others	3,033	3,405
	7,030	**9,657**
Thereof current	7,030	9,657
Thereof non-current	0	0

The other liabilities contain other charges (T€ 531, previous year: T€ 565) as well as other liabilities.

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23. Contingent liabilities and other financial obligations

Obligations

As of 31 December 2022, there were significant obligations from IT maintenance contracts amounting to T€ 4,477 and rental obligations of T€ 7,312.

Purchase commitments for property, plant and equipment still outstanding as of the reporting date amount to T€ 1,554. With regard to contractual obligations for the acquisition of intangible assets, there were no purchase commitments on the reporting date. As a contractual obligation to accept materials, obligations of T€ 26,946 exist on the reporting date, a significant part of which is attributable to a delivery period of three to six months, as well as an obligation to accept supplies of T€ 394.

Litigations

Nidec and Secop reached an out-of-court settlement on all issues covered by the pending arbitration proceedings, including the final outstanding purchase price instalment. As per the agreement, Secop will make a payment of T€ 13,000 to Nidec Europe B.V., payable in the first quarter of 2023. In accordance with the bond terms, Secop shareholders will contribute T€ 3,000 in cash as new equity in order to partially finance the settlement amount. The remaining amount will be financed by existing bank balances and short-term credit facilities, and subsequently taken into account in the refinancing process as a replacement for the maturing existing bond. The financial impact of the settlement agreement has been taken into account in the Secop Group’s annual financial statements. The settlement agreement does not affect certain contractual reimbursement rights of Secop for claims that arose prior to 2019.

24. Related party disclosures

The Secop Group is mainly financed through loans granted by indirect shareholders.

Shareholder loans received

Dilasso Bath Invest S.à r.l., Luxembourg, as the parent company of Secop Group Holding GmbH, granted a loan of T€ 221 in 2019 with repayment by 4 September 2026 and a fixed interest rate of 4% per year.

ESSVP IV LP, Channel Islands, ESSVP IV (Structured) LP, Channel Islands, as well as Silenos GmbH & Co. KG, Germany, as indirect main shareholder of Secop Group Holding GmbH and Crown Co-Investment Opportunities II, Ireland, Crown Premium Private Equity VII Masters SCS, Luxembourg, and Crown Europe Small Buyouts V SCS, Luxembourg, as indirect minority shareholders of Secop Group Holding GmbH, granted a non-current loan of current loan of T€ 51,379 in 2019 with repayment by 04 September 2029 at a fixed interest rate of 8% per year.

ESSVP IV LP, Channel Islands, ESSVP IV (Structured) LP, Channel Islands, as well as Silenos GmbH & Co. KG, Germany, as indirect main shareholder of Secop Group Holding GmbH and Crown Co-Investment Opportunities II, Ireland, Crown Premium Private Equity VII Masters SCS, Luxembourg, and Crown Europe Small Buyouts V SCS, Luxembourg, as indirect minority shareholders of Secop Group Holding GmbH, granted a current loan of T€ 40,000 with repayment by 19 August 2020 at an interest rate of 8% per year. A nominal partial repayment of T€ 30,173 was made on 28 July 2020. With the Amendment Agreement of 25 August 2020/27 August 2020, a new term of 2 September 2029 was agreed. On 27 October 2020, the Loan Purchase and Transfer Agreement concluded between these parties regulates the transfer of part of the loan (T€ 6,625) to Dilasso Bath S.à r.l.

The shareholder loans received are unsecured and, with the exception of T€ 233, have qualified subordination agreements. As of 31 December 2022, the loans are reported under non-current interest-bearing loans. Please refer to the additional disclosures in note *20 Liabilities to banks*.

Regarding shareholder loans mentioned above, interest expenses of T€ 4,412 (previous year: T€ 4,410) were incurred in the financial year.

Transactions of key management personnel of the Secop Group

Compensation of key management personnel of the Secop Group in the financial year

Management in key positions is limited to the management of the Parent.

From 1 January 2022 to 26 February 2022, the Management Board consisted of Dr Jan Ehlers and Mr Frank Elsen as managing directors. Mr Frank Elsen relinquished his role on the Management Board on 26 February 2022. On 1 July, Mr Michael Engelen joined the Management Board. From 1 July 2022, the Management Board consisted of Dr Jan Ehlers and Mr Michael Engelen.

For carrying out their tasks in the Parent and subsidiaries, total remuneration of T€ 423 (previous year: T€ 810) (current employee benefits) was paid to the Management Board in the financial year as well as T€ 137 (previous year: T€ 53) to former members of the Management Board (post-employment benefits).

The total remuneration includes fixed and variable remuneration as well as non-cash benefits (company apartment, company vehicles or rental cars) and severance payments.

25. Capital management

The Group manages its capital with the goal to ensure that all group companies can operate on a going concern basis and are able in future to cover their financing requirements for investments and debt settlement. The Group’s capital structure consists of net debt and the Group’s equity (refer to the disclosures in note *16 Subscribed capital and reserves*).

The management of the Secop Group considers the total of equity and shareholder loans totalling T€ 107,108 (previous year: T€ 104,492): for the terms of the shareholder loans, please refer to note *12.2 Interest-bearing loans and other financial liabilities and 24 Related party disclosures)* in relation to the total assets as the relevant ratio. As of 31 December 2022 this is 41% (previous year: 37%).

The bond issued in 2020 obliges the Secop Group to adhere to certain financial covenants (net debt and net and net debt ratio, i.e. the ratio of net debt to operating profit (EBITDA)) and other contractual obligations. In addition to the legal requirements, the Secop Group therefore primarily monitors the Group's operative interest-bearing net debt (i.e. the liabilities from the bond, any debts from bank loans granted less cash and bank balances). One of the goals is to continuously optimize the operative interest-bearing net debt, e.g. through the targeted repurchase of bond papers from the market or the repayment of bank debts. In a further step, it is also possible to repay the shareholder loans including the accrued interest, as happened in 2020 on the occasion of the bond issue.

The contractual regulations on the bond also result in restrictions on the equity of Secop Group Holding GmbH during the term of the bond. Essentially, no dividends shall be paid out to the shareholders, the share capital and other components of the equity of Secop Group Holding GmbH shall not be repaid to the shareholders, no interest payments shall be made on loans granted by the shareholders and no further assets shall be transferred to the shareholders. Secop Group Holding GmbH fulfilled these obligations in the financial year.

26. Auditor’s fee

The total fee charged by the auditor of the consolidated financial statements for the financial year relates exclusively to auditing services and amounts T€ 133 (previous year: T€ 145).

27. Cash flow statement

The cash flow statement has been prepared in accordance with the requirements of IAS 7. It shows the origin and use of cash flows. In the cash flow statement, the cash flows are divided into cash flow from operating activities, cash flow from investing activities and cash flow from financing activities.

Cash and cash equivalents contain the cash and bank balances shown in the statement of financial position. Cash and cash equivalents that are subject to access restrictions were reported in the amount of T€ 840 (previous year: T€ 1,000) under other current financial assets.

With regard to the presentation of the changes in liabilities arising from financing activities, please refer to the disclosures in note *12.4 Changes in liabilities arising from financing activities*.

28. Segment information

Revenue by region

	2022 T€
Germany	8,036
EU	92,889
China	90,972
USA	16,345
Rest of the world	69,521
Total	**277,763**

The allocation of revenue to external customers by region was based on the customer's registered office.

Non-current assets by region

The table below shows the breakdown of non-current assets by region. The allocation of assets according to regions is based on the entity's registered office:

	Property, plant and equipment T€	Intangible assets T€	Right-of-use assets T€
Germany	843	56,315	2,166
EU	63,044	700	1,357
Rest of the world	22,452	3,909	3,321
Total	**86,339**	**60,924**	**6,844**

Segment data and reconciliation

Segment	Stationary Cooling	Mobile Cooling	Medical Cooling[2]	Total	Other activities	Total	**Total 2022**
	T€	**T€**	**T€**	**T€**	**T€**	**T€**	**T€**
Revenue	190,923	79,660	7,181	277,763	0	277,763	277,763
Cost of sales	-169,347	-58,501	-4,711	-232,559	0	-232,559	-232,559
Gross profit	**21,575**	**21,159**	**2,470**	**45,204**	**0**	**45,204**	**45,204**
Other operating income							28,842
Sales and distribution expenses							-22,972
Administrative expenses							-19,392
Other expenses							-23,832
Operating profit							**7,851**
Financial expenses							-9,434
Financial income							1,016
Profit before tax							**-2,600**

Segment	Stationary Cooling	Mobile Cooling	Medical Cooling	Total	Other activities	Total	**Total 2021**
	T€	**T€**	**T€**	**T€**	**T€**	**T€**	**T€**
Revenue	216,178	75,770	8,519	300,466	0	300,466	300,466
Cost of sales	-172,637	-49,258	-5,624	-227,518	-12,651	-240,169	-240,169
Gross profit	**43,541**	**26,512**	**2,895**	**72,948**	**-12,651**	**60,297**	**60,297**
Other operating income							8,398
Sales and distribution expenses							-22,484
Administrative expenses							-18,910
Other expenses							-18,247
Operating profit							**9,054**
Financial expenses							-8,918
Financial income							1,872
Profit before tax							**2,007**

1 In the context of internal reporting, cost of sales relating to depreciation and fixed costs are not included in the cost of sales.

2 The Medical Cooling segment was set up in 2022 and the previous year's figures adjusted accordingly.

The business segments to be reported in accordance with IFRS 8 were determined on the basis of the business areas that have been monitored within the framework of internal reporting since 2020 and whose performance data are the basis for management decisions.

Business areas that are reported separately internally are combined in accordance with IFRS 8.12, according to which the nature of the products and services, the type of production processes, the type or category of customers for these products and services and the methods of selling their products within the segments are comparable.

Explanations on the Stationary Cooling segment

In the Stationary Cooling segment, Secop sells compressors for commercial cooling applications, which mainly include compressors for bottle coolers and glass door refrigerators, compressors for commercial refrigerators and compressors for supermarket freezers and marketing coolers. Local and global customers are served who, in their business models, supply customers with special cooling devices, e.g. in food retail or in hotels and restaurants.

Explanations on the Mobile Cooling segment

In the Mobile Cooling segment, Secop sells compressors for mobile applications, which primarily include lorry refrigerators, car minibars, spot coolers, battery/accumulator coolers in the telecommunications sector and cool boxes for private and medical applications.

Explanations on the Medical Cooling segment

In the Medical Cooling segment with its stationary and mobile solutions, Secop is a reliable partner to leading companies that support the development of a global ULT (ultra-low temperature) supply chain and optimise the medical cooling chain with green and efficient solutions.

29. Standards issued but not yet in effect

The new and amended standards and interpretations that are issued, but not yet in effect, up to the date of publication of the consolidated financial statements are disclosed below. The Secop Group intends to adopt these new and amended standards and interpretations when they come into effect.

IFRS 17 – Insurance Contracts

In May 2017, the IASB published IFRS 17 Insurance Contracts, a comprehensive new accounting standard that contains principles for the recognition, measurement, presentation and submission obligations in relation to insurance contracts. Upon entry into force, IFRS 17 replaces IFRS 4 Insurance Contracts, published in 2005. IFRS 17 applies to all types of insurance contracts (i.e. life, property, direct and reinsurance) and to certain warranties and financial instruments with discretionary participation, regardless of the type of issuing company. With regard to the area of application, individual exceptions apply. The overall goal of IFRS 17 is to create a more useful and uniform accounting model for insurers. In contrast to the regulations of IFRS 4, which are largely based on grandfathering for earlier local accounting policies, IFRS 17 represents a comprehensive model for insurance contracts that maps all relevant aspects of accounting. The core of IFRS 17 is the general model, supplemented by

• a specific adaptation for contracts with direct participation features (variable fee approach) and

• a simplified approach (the premium allocation approach) mainly for short-duration contracts.

IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

According to the current state of knowledge, the Secop Group does not expect IFRS 17 to have any effects on group accounting.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of accounting policies

In February 2021 the IASB published amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, which contain guidelines and explanatory examples that intend to make it easier for entities to assess when information on accounting policies is to be classified as "material" and consequently needs to be disclosed. The amendments aim to help entities make more helpful disclosures on accounting policies for users of financial statements by replacing the requirement to disclose "significant" accounting policies with the requirement to disclose "material" information on accounting policies and supplementing guidelines that aim to make it easier for entities to apply the concept of materiality when assessing which information on accounting policies needs to be disclosed.

The amendments to IAS 1 apply for financial years commencing on or after 1 January 2023.

Earlier application is permissible. As the amendments to Practice Statement 2 contain non-binding guidelines on the definition of “material” in relation to information on accounting policies, a date of entry into force was not considered necessary for the amendments.

The amendments apply for financial years commencing on or after 1 January 2023. The Secop Group does not expect this to have a significant impact on the consolidated financial statements.

The Secop Group is currently reviewing the information it discloses on accounting policies in order to ensure compliance with the amended requirements.

Amendments to IAS 8 - Definition of accounting estimates

In February 2021, the IASB published amendments to IAS 8 Accounting Policies, Changes to Accounting Estimates and Errors. The amendments to IAS 8 clarify how companies can better distinguish changes in accounting methods from changes in estimates. For this purpose, it states that an accounting-related estimate is always related to an estimation uncertainty of a financial variable in the financial statements.

The amendments apply for financial years commencing on or after 1 January 2023. The Secop Group does not expect this to have a significant impact on the consolidated financial statements.

Amendments to IAS 12 – Deferred tax related to assets and liabilities arising from a single transaction

In May 2021, the IASB published amendments to IAS 12 that restrict the scope of the initial recognition exemption as defined in IAS 12 such that it no longer applies for transactions that give rise to equal taxable and deductible temporary differences.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period presented, a deferred tax asset (to the extent that an adequate taxable profit is available) and a deferred tax liability must be recognised for all deductible and taxable temporary differences associated with leases and disposal obligations.

The amendments apply for financial years commencing on or after 1 January 2023. The Secop Group does not expect this to have a significant impact on the consolidated financial statements.

30. Events after the reporting period

No material transactions occurred after the reporting date for the reporting period.

31. Approval of the financial statements

The consolidated financial statements were approved by the Management Board of Secop Group Holding GmbH and released for publication on 24 March 2023.

Flensburg, 24 March 2023

Jan Ehlers	Michael Engelen
Managing Director	Managing Director

Secop Group Holding GmbH, Flensburg

Group management report 2022

Contents

Preliminary remarks:

Secop Group Holding GmbH ("Secop Group" or "Secop" or "SGH"), with is registered office in Flensburg, Germany, is required to prepare consolidated financial statements, which it voluntarily prepares as defined in Section 315e (3) HGB (German Commercial Code) in conjunction with Section 315e (1) HGB in accordance with the international accounting standards and the supplementary HGB provisions. All amounts stated in the Group management report relate to the consolidated financial statements prepared on the basis of the international accounting standards (IFRS).

On 28 July 2020, Secop Group Holding GmbH issued a senior secured floating rate bond with an initial volume of € 50.0 million and a term until 28 January 2024 on the unregulated official market in Frankfurt (Germany). Furthermore, the bond has been listed on the stock exchange in Stockholm (Sweden) since 2021.

1 Fundamental information about the Group

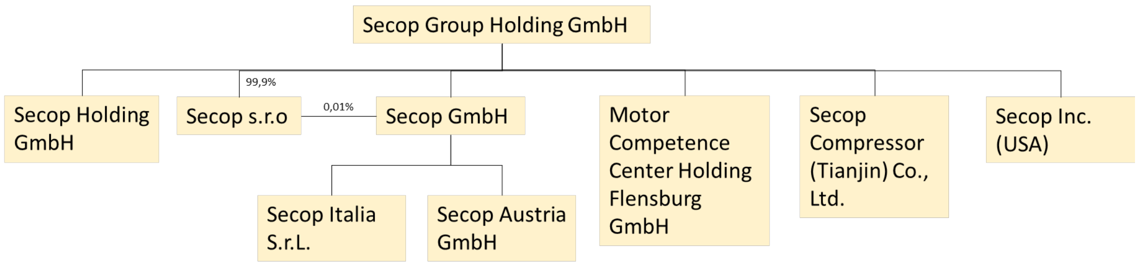
1.1 The Group's business model

The Secop Group develops, produces and sells hermetic compressors for cooling applications worldwide. In pursuing this business, it uses raw and input materials, such as steel, copper, aluminium and electrical components that are essential for the compressor control systems. The raw materials are used to manufacture compressors for household appliances, commercial appliances and mobile appliances in the Secop Group production facilities. The marketing and sales organisations are responsible for the global sale of the goods. The Application Engineering division provides customer service and technical marketing activities with engineering expertise for Secop Group customers.

In the Stationary Cooling segment, the Secop Group sells compressors for commercial cooling applications, which mainly include compressors for bottle coolers and glass door refrigerators, compressors for commercial refrigerators and compressors for supermarket freezers and marketing coolers. In the Mobile Cooling division, the Secop Group sells compressors for mobile applications, which primarily include lorry refrigerators, car minibars, spot coolers, battery/accumulator coolers in the telecommunications sector and cool boxes for private and medical applications. In the Medical Cooling segment with its stationary and mobile solutions, Secop is a reliable partner to leading companies that support the development of a global ULT (ultra-low temperature) supply chain and optimise the medical cooling chain with green and efficient solutions. The Medical Cooling segment has been included in the reporting for the first time this year.

SGH is the Group's head office for directly and indirectly held wholly-owned subsidiaries, including Secop GmbH (Flensburg/Germany) as the administrative site and distribution centre, Secop Holding GmbH (Flensburg/Germany), Motor Competence Center Holding GmbH (Flensburg/Germany) as the R&D competence centre, Secop s.r.o. (Zlaté Moravce/Slovakia) as a production site, Secop Compressors (Tianjin) Co., Ltd. (Tianjin/China) as a production site and Secop Austria GmbH (Gleisdorf/Austria) as a research site. These are joined by Secop Inc. (Roswell/USA) a sales and service company and Secop Italia S.r.l. (Milan/Italy) a sales and marketing support unit. Both Secop GmbH and Secop Inc. as well as the production sites sell compressors to third parties. The development expertise primarily resides at the Austrian site in Gleisdorf (near Graz) and the Motor Competence Center GmbH in Flensburg (Germany). The sales activities at the European sites are coordinated by the German company Secop GmbH. Secop Compressors (Tianjin) Co., Ltd. operates production facilities and also has its own sales organisation for the Chinese market. The USA operates a sales organisation as well as a separate warehouse for products that are imported from the Secop Group's own plants in Slovakia and China.

In summary, the Secop Group structure is as follows:



The Secop Group was strategically repositioned in 2019 and 2020. The current core business is focussed on the two global segments of Stationary Cooling and Mobile Cooling as well as the Medical Cooling segment currently under development. In the coming years, Secop's resources, investment funds and general focus will target these three segments.

1.2 Control system

The comprehensive and reliable uniform information and controlling system established in the Secop Group is implemented in all Group companies and consolidated in SGH. It supplies critical information on improving the cost and earnings situation to enable necessary countermeasures to be introduced where necessary. A weekly liquidity report and a monthly variance analysis from the annual budget and the intra-year forecasts are used for this purpose. The managing directors of the individual companies use these management tools to provide a monthly update to Group management on the current situation and the developments in the Group companies to support management decisions.

The key planning and management figures for internal management of the Group and Group companies (and so the key financial performance indicators) are the revenue and adjusted EBITDA figures. All key figures are recorded and monitored in the uniform Group reporting system. For the calculation of adjusted EBITDA, please refer to section 2.2 Business development and situation. Moreover, management receives regular updates on the revenue, the "adjusted" cost of sales (cost of sales not including the costs for depreciation and overheads) and the gross profit (revenue less "adjusted" cost of sales) for each segment. These figures are additional financial performance indicators but are not considered key performance indicators.

The non-financial Group statement in line with Section 315b HGB is published as a separate report on the Company's website.

1.3 Research and development

Secop's priorities in its product development activities include "green" refrigerants, improving energy efficiencies and compactness as well as streamlining the use of raw materials.

In 2022, the new KLF platform was launched on the market, which offers a high level of energy efficiency for compressors with 4 to 8 cc of cubic capacity and are operated with the natural R290 refrigerant. Compared to the previous DLE generation, this provides a COP improvement of 5 to 10% as well as a cost improvement of up to 20%. The Mobile Cooling segment also has an entire range of drives on the market that offers customers more opportunities in the area of electronics and software. The ULT products have been consolidated and a new mobile cooling unit was supplied to one of our customers. The Secop condensation unit used in the box can reach temperatures as low as -80°C on an ongoing basis. The first finished prototype was able to be presented to the public in 2022.

The Secop Group also works together with the WHO and large non-profit foundations (e.g. Bill & Melinda Gates Foundation) in this field. The goal is to reduce power consumption even further.

The new BDnano mobile cooling platform will be launched on the market in 2023, with world-beating performance in terms of transport stability, dynamic noise development, cooling and energy output. In addition, the Stationary Cooling segment will launch a new variable-speed drive on the market that can control the compressor as well as the customer application based on customer-specific parameters.

Projects to advance the cooling capacities of our NLE and SCE platforms are currently in progress, with the first models expected to be delivered in 2024.

In 2022, the Group's R&D expense amounted to € 13.5 million (previous year: € 12.3 million). A total of 57% (previous year: 57%) was capitalised in the financial year. An average of around 150 employees work in the field of R&D. The Secop Group may register patents to safeguard the research and development results.

2 Economic report

2.1 Macroeconomic and sector-specific conditions

In 2022, the German economy recorded a rise in gross domestic product of 1.9% despite having to deal with the tail-end of the Covid-19 pandemic with its disrupted supply chains as well as the Ukraine conflict and the associated uncertainties in energy and commodity prices. The rise is once again predominantly due to the catch-up effect from the Covid-19 pandemic, as supply chains continued to stabilise and private consumption recovered. [1]

Despite the energy and supply chain crisis, industrial production grew by 0.5% in 2022, although orders received by the manufacturing industry declined year-on-year in 2022. This points to a deteriorating mood in the industry as a result of the sharp rise in producer and energy price inflation, while fewer orders were able to be acquired from abroad. [2]

[1] Source: Press release by the Federal Ministry for Economic Affairs and Climate Action of 13 January 2023
[2] Source: Press release by the Federal Ministry for Economic Affairs and Climate Action of 13 January 2023

The labour market developed positively despite rising inflation and energy prices, as the skills shortage is increasingly becoming a growth problem across almost all sectors. Seasonally-adjusted employment rose strongly in November 2022 and seasonally-adjusted unemployment fell once again in December 2022.[3]

Imports of goods and services fell year-on-year in November 2022 (-4.5%), but this represents more of a stagnation as import prices also fell by 4.5%. This sideways movement is characterised by high energy prices, although these declined during the year, as well as falling export and import prices. However, trade conditions for Germany have slowly started to improve due to the disproportionate fall in import prices.[4]

Overall, the outlook for the global economy is restrained. High inflation and the Ukraine-Russia conflict have led to uncertainty that has dampened global economic growth. Economic growth will also turn negative in some countries.[5] While China, as the starting point and first epicentre of the Covid-19 pandemic, reported that its large economy grew, this growth was lower compared to previous years due to the strict zero-Covid strategy and a real estate crisis. As a result, the Chinese economy reported estimated growth of 3.5% for 2022 and forecasts moderate growth of 4.4% in 2023.[6] This is a sharp decline compared to the previous year in which the Chinese economy grew by 8.4%.[7]

The overall market for compressors (approx. volume: 60 million compressors) is a growth market with expected sales growth of between 5.5% to 6.7% p.a. (2021-2027/2030).[8] The potential applications of cooling appliances are constantly increasing (food, retail, transport, pharmaceuticals, etc.) while the global rise in temperatures as well as the growing population are also increasing demand for cooling. As it stands, the Covid-19 pandemic did not lead to any significant drop in overall demand, with demand instead increasing. However, inflation as well as the uncertainties brought about by the Ukraine-Russia conflict had an impact on the Secop Group. High energy and producer prices in particular had a negative effect on demand.

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[3] Source: Press release by the Federal Ministry for Economic Affairs and Climate Action of 13 January 2023
[4] Source: Press release by the Federal Ministry for Economic Affairs and Climate Action of 13 January 2023
[5] Source: Press release by the Federal Ministry for Economic Affairs and Climate Action of 13 January 2023
[6] BMWK Schlaglichter der Wirtschaftspolitik December 2022
[7] Handelsblatt: China verfehlt sein selbst gesetztes Wachstumsziel deutlich vom 17. Januar 2023
[8] Global Market Insights Hermetically Sealed Reciprocating Compressors Market Size Industry Analysis Report, Regional Outlook, Growth Potential, Price Trends, Competitive Market Share & Forecast, 2021 – 2027; Transparency market research: Commercial Food Refrigeration Equipment Market Global Industry Analysis 2017 –2031.

Besides the classic areas of application, Secop products are also essential appliances in the health sector for maintaining cold chains and for supplying the population with refrigerated food or health products (e.g. vaccines).

2.2 Business development and situation

The market development in the Stationary Cooling segment slowed, particularly in China and Europe, due to the previous investments in food retail. On the other hand, demand for food services was boosted by positive trends in America and Europe. In Europe and the Middle East demand fell as a result of the price rises implemented in the first half of 2022.

The food service market reported good demand from hotels, restaurants and catering in Europe and America, driven by a good holiday season as Covid measures were relaxed in many countries. Only in China was this growth hampered in 2022 by new waves of lockdowns in response to the country's zero-Covid strategy.

The Food Retail segment recorded a decline in demand in Europe and China due to lower investments in food and beverage markets, while the overall growth opportunities in America were solid. During the course of the year, demand in the America region was strongest with a positive trend across all segments. By contrast, demand in Europe was constantly below forecasts and suffered from the negative effects of the Ukraine crisis and rising inflation, which had a marked impact on production costs. China reported a significant fall in domestic demand due to the zero-Covid strategy, but exports also suffered from the imposed Covid lockdowns. Demand in South-East Asia remained low, while demand in the Middle East and Africa fell due to price pressure and import as well as currency restrictions.

The Retail segment reported good demand for spare parts, while various OEM projects to develop environmentally-friendly and energy-efficient solutions were supported by Secop with a range of premium products for efficient solutions.

In the Mobile Cooling segment, Secop was able to report satisfactory demand overall. The Automotive segment maintained a pleasing order level despite the fluctuations in the automotive market, as demand for vehicles with refrigerators on board rose. The Leisure segment reported consistent demand for recreational vehicles as well as portable cooling solutions, which is still due to the effects of Covid-19 as well as consumer demand for mobility solutions. Demand in the Ship Cooling segment also rose. On the other hand, the Mobile Cooling segment suffered under the restrictions in the supply chain for electronic components, although this situation became less strained during the second half.

The Medical Cooling segment continued to report solid demand at a low level, driven by worldwide medical projects for the storage of vaccines in the supply chain as well as for pharmaceutical laboratories. Secop resumed its consistent growth in the Mobile Medical Applications segment. During the year, Secop acquired a number of new projects to develop solutions for the medical cold chain as well as to launch environmentally-friendly and efficient solutions with the new generation of products, which Secop developed for the medical healthcare market and vaccine distribution.

The legal conditions did not change for the Secop Group during 2022.

The gross profit margins achieved in 2022 declined slightly compared to 2021 due to the rise in raw material and energy prices, while the gross margin (revenue less cost of sales) of around 20% of revenue was similar to the level reported in 2021.

In 2022, comprehensive income was primarily negatively affected by the fall in sales and the uncertainties in the Ukraine-Russia conflict as well as high inflation. This was partially compensated by an out-of-court settlement with former shareholder Nidec Europe B.V. that encompassed all of the disputed items of the associated arbitration proceedings, including the outstanding residual purchase price. The key management figure of adjusted EBITDA of € 18.2 million deteriorated from the previous year (€ 26.7 million) due to a decline in sales. At the same time, the IFRS EBITDA (reported EBITDA) of € 23.9 million (previous year: € 20.1 million) improved year-on-year. This improvement is due to non-recurring effects, primarily the settlement of the arbitration proceedings with former shareholder Nidec Europe B.V.

In summary, targeted sales and the planned result could not be achieved in 2022 due to a range of external factors. In view of the significant challenges faced in 2022, in particular the persistent Covid pandemic and the Ukraine-Russia conflict, and the resulting negative impact on commodity, energy and transport prices, which were only be able to be passed on to our customers with a delay and with sales losses in some cases, management remains satisfied with the Company’s economic performance.

Adjusted EBITDA is calculated as follows:

	2022	2021
	T€	T€
Revenue	**277,763**	**300,466**
Cost of sales	**-232,559**	**-240,169**
Gross profit	**45,205**	**60,297**
Other operating income	26,895	8,398
Sales and distribution expenses	-21,025	-22,484
Administrative expenses	-19,392	-18,910
Other expenses	-23,832	-18,247
Operating profit	**7,852**	**9,054**
plus depreciation contained therein	16,008	11,144
EBITDA acc. to IFRS	**23,860**	**20,198**
Leasing costs acc. to IFRS 16	-1,669	-1,261
Unrealised currency gains/losses	-656	1,498
Profit/loss from the sale of assets	-11	-61
Unadjusted EBITDA	**21,524**	**20,374**
Adjustments:		
Arbitration tribunal/SPA	-6,374	1,924
Restructuring	1,499	160
Consulting expenses	1,342	988
Other	180	3,239
Adjusted EBITDA	**18,171**	**26,685**

2.2.1 Results of operations

	2022	2021	Change
	T€	T€	T€
Revenue	**277,763**	**300,466**	**-22,703**
Cost of sales	**-232,559**	**-240,167**	**7,608**
Gross profit	**45,205**	**60,296**	**-15,091**
Other operating income	26,895	8,398	18,497
Sales and distribution expenses	-21,025	-22,484	1,459
Administrative expenses	-19,392	-18,910	-482
Other expenses	-23,832	-18,247	-5,585
Operating profit	**7,852**	**9,054**	**-1,202**
Financial expenses	-10,347	-9,911	-436
Financial income	913	993	-80
Profit before tax	**-1,583**	**136**	**-1,719**
Income tax expense	-1,016	1,872	-2,888
Accounting profit/loss	**-2,600**	**2,008**	**-4,608**

Sales of € 277.7 million in 2022 declined by 8% year-on-year. The personnel expenses contained in the cost of sales, distribution costs, administration costs and other costs in 2022 of € 39.7 million (previous year: € 44.9 million) remained at a constant level of 14% in relation to revenue compared to the previous year (previous year: 14 %). This was due to a reduction in the workforce, particularly in the production area, as well as the lower accrual of personnel-related provisions for bonuses and outstanding vacation, among others.

The depreciation contained in the cost of sales, distribution costs, administration costs and other costs in the 2022 financial year totalled € 16.0 million (previous year: € 11.1 million). Depreciation in the 2022 financial year was predominantly impacted by non-recurring items, e.g. by the depreciation of the XV technology. Measured as a percentage of revenue, the depreciation rate increased from 4% in the previous year to 6% in 2022, primarily due to the non-recurring items previously mentioned. Excluding the non-recurring items, the depreciation rate was 5%.

The segments developed unevenly during the 2022 financial year. Sales in the Stationary Cooling segment fell by 12% compared to 2021, while costs of sales declined by just 2% year-on-year. The resulting increase in the cost of sales ratio from 79% to 89% is due to the increasing pressure on material and energy prices throughout the financial year. In the Mobile Cooling segment, sales increased by 5% compared to 2021, but the cost of sales rose by 19%. This led to a rise in the cost of sales ratio from 65% to 73%. Sales in the Medical Cooling segment fell by 16% year-on-year, while the cost of sales ratio remained stable at 66%.

Segment	2022 Statio-nary Cooling T€	Mobile Cooli-ng T€	Medic-al Cooli-ng T€	2021 Stationa-ry Cooling T€	Mobile Cooling T€	Medical Cooling
Revenue	190,923	79,660	7,181	216,178	75,770	8,519
“Adjusted” cost of sales	169,347	58,501	4,711	172,637	49,258	5,624
Gross profit	21,575	21,159	2,470	43,541	26,512	2,895

This breakdown shows that 69% of revenue is generated by the Stationary Cooling segment, 29% by the Mobile Cooling segment and 3% by the Medical Cooling segment.

The gross profit used for internal segment management fell by 25%, primarily due to the decline in sales and the higher raw material and energy prices, which particularly affected the Stationary Cooling segment.

The interest income (financing costs less financial income) declined by around € 1.4 million. Overall, interest expenses increased slightly (€ 0.5 million). The significant increase in interest rates by the ECB and the associated EURIBOR (+2.4%) for the bond led to higher interest expenses in this area, particularly in the second half. But, on the other hand, interest income as well as the other interest expenses remained stable year-on-year.

The ongoing tax expenses in the 2022 financial year are heavily dependent on the national company in China, which decreased year-on-year. Conversely, the continued recognition of deferred taxes on loss carryforwards at the German and Slovakian companies has a positive impact on the deferred tax result in the 2022 financial year, which was partly able to overcompensate the ongoing tax expense.

2.2.2 Financial position

The Secop Group's principal financial liabilities comprise interest-bearing loans and borrowings and other financial liabilities as well as trade payables. The main purpose of these financial liabilities is to finance the Secop Group's operations.

The long-term financing requirements are covered by the shareholder loans and the bond issued in 2020.

On 28 July 2020 a senior secured floating rate bond with a variable interest rate of 6.75% above the EURIBOR, an initial volume of € 50.0 million and a term until 28 January 2024 was issued. The bond is traded on the regulated unofficial market of the Frankfurt Stock Exchange and is also listed in Stockholm (Sweden). The conditions for bond liabilities stipulate that special repayments are possible within a defined framework, as well as the targeted purchase of bond coupons on the market. On the other hand, the Secop Group can sell bond tranches back to the market in order to increase liquidity. In addition, the Secop Group is obliged to adhere to financial covenants and other contractual obligations. Failure to comply with these contractual obligations and financial covenants could trigger the premature repayment of the outstanding bond liabilities. On 31 December 2022 nominal bond liabilities totalled € 37.5 million (excluding interest).

The short-term liquidity requirements are predominantly covered by operating cash flow and current liabilities to banks from supply chain financing and the revolving credit facility.

Analysis of consolidated statement of cash flows

for the period from 1 January to 31 December 2022

	2022 T€	2021 T€
Operating activities		
EBIT	***7,851***	***9,053***
+ Depreciation/- write-up of property, plant, and equipment, intangible assets and right-of-use assets	14,567	10,078
- Decrease/+ increase in provisions	-676	-3,807
Out-of-court settlement Nidec	-11,039	0
± Non-cash items from the consolidation	-1,111	1,747
+ Decrease/- increase in trade receivables and current assets	13,106	-7,058
+ Decrease/- increase in inventories	13,964	-15,134
- Decrease/+ increase in trade payables, other liabilities and current provisions	-18,788	14,920
± Changes in other statement of financial position items	1,509	-1,030
Income tax paid	-861	-1,363
Income tax received	205	31
Net cash flows from operating activities	***18,727***	***7,437***
Investing activities		
- Investments in tangible assets	-7,181	-12,126
- Investments in intangible assets	-8,750	-7,948
- Investments in right-of-use assets in line with IFRS 16	-940	-3,066
+ Proceeds from sale of property, plant and equipment, intangible assets and right-of-use assets	136	334
Net cash flows used in investing activities	***-16,734***	***-22,807***
Financing activities		
Interest and fees paid	-4,789	-4,234
Interest received	1,776	1,640
Payment of principal portion of lease liabilities	-228	-194
Decrease in the escrow account	101	8,881
+ Increase/- decrease in liabilities to banks	5,245	-7,882
Net cash flows from financing activities	***2,105***	***-1,789***
Increase/decrease in cash and cash equivalents	**4,098**	**-17,158**
Cash and cash equivalents at 1 January	**13,049**	**29,304**
Increase/decrease in cash and cash equivalents	4,098	-17,158
Foreign exchange differences	97	904
Cash and cash equivalents at 31 December	**17,245**	**13,049**

Due to the change in the internal calculation of the cash flow, the presentation was adjusted accordingly from the previous year.

The cash flow from operating activities in the 2022 financial year improved by € 11.2 million to € 18.8 million year-on-year. The improvement in operating cash flow is primarily due to the reduction in inventories (-€ 13.1 million) and trade receivables (-€ 13.9 million). By contrast, a decline in trade payables by € 18.8 million had a negative impact on operating cash flow.

Cash flow from investment activity fell by € 6.0 million. In 2021, investments were primarily impacted by a non-recurring effect—the IFRS 16 treatment of the new office building in Flensburg (€ 2.5 million). No comparable capitalisation under IFRS 16 took place in 2022. A total of € 8.7 million was invested in intangible assets in 2022, mainly attributable to the capitalisation of product development costs (R&D expenses). Further investments were also made in the factories in Slovakia and China.

Net cash flow from financing activities of +€ 2.1 million in the 2022 financial year is primarily due to the assumption of current liabilities to banks. In 2022, the Company used a "supply chain financing" programme to finance supplier liabilities in China.

In summary, the Group's cash and cash equivalents increased by € 4.2 million between 31 December 2021 and 31 December 2022, totalling € 17.3 million on the reporting date.

The Secop Group was able to meet its payment obligations at all times in 2022.

2.2.3 Net assets

	31/12/2022 T€	31/12/2021 T€
Assets		
Non-current assets		
Property, plant and equipment	86,339	85,621
Intangible assets	60,924	58,888
Right-of-use assets	6,844	7,416
Deferred tax assets	310	1,133
	154,418	**153,058**
Current assets		
Inventories	36,665	50,483
Trade receivables	39,265	52,437
Other financial assets	4,282	4,693
Other non-financial assets	6,585	11,566
Cash and bank balances	17,245	13,049
	104,043	**132,228**
Total assets	**258,461**	**285,286**
Equity and liabilities		
Equity		
Subscribed capital	25	25
Other capital reserves	1,975	1,975
Retained earnings	32,267	33,281
Other reserves	3,723	4,416
Total equity	**37,990**	**39,697**
Non-current liabilities		
Interest-bearing loans and borrowings	106,739	101,977
Other financial liabilities	6,549	7,481
Provisions	5,675	3,136
Net employee defined benefit liabilities	2,827	4,085
Deferred tax liabilities	16,061	16,876
	137,851	**133,555**
Current liabilities		
Trade payables	47,787	72,102
Current liabilities to banks	10,060	0
Other financial liabilities	11,543	20,943
Other non-financial liabilities	7,030	9,657
Provisions	6,200	9,332
	82,620	**112,034**
Total liabilities	**220,471**	**245,589**
Total assets	**258,461**	**285,286**

The increase in non-current assets by € 1.4 million year-on-year is primarily due to the capitalisation of development costs in line with IAS 38. In addition, the production sites also invested in property, plant and equipment in order to prepare the plants for the production of new products and to increase productivity and effectiveness of production.

Inventories fell by 27% compared to 2021 as a result of the introduction of end-to-end inventory management and a stricter "built to order" principle. Trade receivables declined by 25% year-on-year due to better receivables management as well as a decline in sales. The decline in other financial assets is attributable to the reduction in VAT receivables (-€ 2.6 million) as well as the reporting of tools and spare parts with a useful life of more than one year in property, plant and equipment (-€ 2.2 million).

Non-current loans increased by 5% to 48% (previous year: 36%) of total assets. This increase is primarily due to the capitalised interest on non-current loans. Current liabilities to banks increased in 2022 due to the use of the supply chain financing programme in China.

In the 2020 financial year, the Secop Group issued a bond originally totalling € 50.0 million. The contractual regulations on the bond result in restrictions on the equity of Secop Group Holding GmbH during the term of the bond. Essentially, no dividends may be paid out to the shareholders, the share capital and other components of the equity of Secop Group Holding GmbH may not be repaid to shareholders, no interest payments may be made on loans granted by the shareholders and no further assets may be transferred to shareholders.

Total assets declined by € 27 million due to the reduction in inventories and trade receivables as well as the out-of-court settlement concerning the disputed items of the arbitration proceedings with former shareholder Nidec Europe B.V. The decline in total assets resulted in an increase in the "formal" equity ratio to 14.7% (previous year: 14.0%). However, management considers the sum of equity and shareholder loans of € 107.1 million (previous year: € 104.5 million) in relation to the total assets to be the relevant ratio ("soft" equity ratio). As at 31 December 2022, this was 41% (previous year: 37 %).

2.2.4 Summary statement

In summary, management considers the Company to be in a good economic position. While the results of operations deteriorated year-on-year in 2022, given the significant external factors and challenges, in particular the general inflation, increase in commodity and energy costs and delivery bottlenecks, especially for electronic components, this can be considered a satisfactory result.

3 Supplementary report

No transactions of particular importance occurred after the reporting date.

4 Outlook

For 2023, the outlook for all markets and regions is cautiously optimistic, albeit with a weak start to the year as a consequence of the instabilities in 2022. However, in view of the persistently high inflation, the Ukraine-Russia conflict and the fragile economic stability in Europe, the economic forecasts remain subject to great uncertainty.

In China, a recovery is expected from the end of the first quarter of 2023, particularly in the local market, while the export market could continue to be adversely affected by the global economic situation. In Europe, the business outlook remains conservative as the inflation rate and economic/political stability could influence the level of demand. Following a weaker start to 2023, the introduction of new regulations, which ban certain refrigerants, point to a rise in demand, particularly in America. This ban will also stimulate new projects for green refrigerants. In addition, other regions are expected to report more stable and consistent demand in 2023, albeit with a certain price pressure.

The expectation is that the material cost level and energy costs will fall and stabilise, which will have a positive impact on profitability, while delivery bottlenecks for electronics are also expected to ease and provide the opportunity to satisfy the expected demand.

In the Stationary Cooling segment, the new products recently launched on the market will strengthen revenue in 2023. Secop intends to exploit the benefits of new products to support the development of new business and meet the rising demand for environmentally-friendly and energy-efficient refrigeration compressors.

The Company expects that the Mobile Cooling segment will continue to grow with the introduction of the BDnano premium solution and we are seeing strong demand for various electric vehicle projects in the Development department.

The Medical Cooling segment will see a ramp-up of various projects in 2023. The market launch of these new solutions will reinforce Secop's leadership position in this segment.

In terms of sales and EBITDA adjusted for certain non-recurring effects, the Secop Group is forecasting growth compared to 2022, although this will depend heavily on the expected economic and political stability in Europe and worldwide as well as the expected price reduction and delivery reliability on the procurement markets. Secop expects a tangible to significant rise in revenue from the level of € 277 million reported in 2022. A tangible rise in adjusted EBITDA is also expected in 2023. In 2023, EBITDA in line with IFRS will be below the value reported last year as this was heavily influenced by the out-of-court settlement with former shareholder Nidec Europe B.V. (+€ 8.9 million) and a comparable effect is not expected in 2023.

5 Opportunities report

The Secop Group has focussed its activities on the Stationary Cooling, Mobile Cooling and Medical Cooling segments with two modern production plants in Slovakia and China. This focus provides the opportunity to ensure the targeted use of existing resources for investments as well as research and development activities in the three profitable business areas. This should result in an opportunity to generate higher growth.

Secop is focussed on innovation and an ambitious roadmap for introducing new products to support business development in the various segments as well as to service the needs of customers with innovative solutions. The products have been developed together with customers with the goal of supporting the market trends towards green and efficient solutions for the storage and transport of food, beverages and medical products.

The core know-how in system design and direct contact with Secop's skilled application team enable customer requirements to be defined in order to tackle the imminent transformation in application design. This is reflected in the development of new platforms and the integration of existing platforms that lead to new and efficient solutions.

For the **Stationary Cooling** segment, Secop developed a new product range to exploit the opportunities arising from the market trends for the introduction of environmentally-friendly refrigerants in order to reduce greenhouse gas emissions while also reducing the energy consumption of the cooling solutions provided with highly-efficient solutions.

The new KLF product series launched in 2022 is specifically optimised for green refrigerants and integrates a patented solution for flammable refrigerants that is unique on the market. These products are manufactured at our plant in Slovakia on a new, automated production line. To satisfy the new regulations for energy-optimised "cooling solutions" and the new standards for energy labels, Secop has developed a new electronic controller. This new modular solution enables a significant improvement in energy consumption. These applications have already been successfully tested by various customers and integrated into new products.

Secop has also launched two other projects to advance the NL and SC platforms in order to cover the market demand for green compressors in food retail and restaurants in the near future. The Secop Group therefore boasts a complete range of solutions for supporting the transformation of this segment towards green and efficient refrigerators.

The **Mobile Cooling** segment can also look forward to a range of opportunities on the market that aim to support the development of cooling appliances to underpin new mobility trends. Since Covid-19 there has been a significant rise in demand for mobile cooling appliances due to a change in consumer habits in the leisure and automotive sector, among others.

To support this development, Secop has introduced the new BDnano platform, which offers much greater power and efficiency together with a more compact size in order to optimise space. The new platform is specifically optimised for electric vehicle applications and provides the opportunity to generate added value and also support the design of new and more powerful solutions. The new platform will be produced with a new production line at the production site in China and includes models suitable for portable solutions, recreational vehicles, cars as well as lorries.

The **Medical Cooling** segment was established to offer customers the best possible options in the medical cold chain, to develop refrigerators with environmentally-friendly refrigerants and to make the system as efficient as possible with superior control of the system performance. Secop therefore gave the go-ahead for a range of products that have been developed and tested specifically for medical applications in order to support storage and transport in the medical cold chain.

As a result, Secop launched a joint initiative together with market leaders in this segment to develop new and innovative solutions for the demand for medical cold chains as a result of the Covid-19 crisis. In particular, Secop developed cooling systems to help customers integrate a complete cooling solution for mobile use. This will provide the opportunity to optimise the system with the latest generation of environmentally-friendly and efficient compressors.

In addition, the development of a new ultra-low temperature cooling solution for vaccine transport boxes successfully closed a gap in the current supply chain for the new generation of vaccine transport and created the opportunity to ensure the reliable and controlled transport of bottles even under adverse ambient conditions.

Moreover, at the specific request of the WHO, the Secop Group responded with a new design for solar-powered direct drive controllers, which is able to satisfy the highest standards for photovoltaics supply. This design also meets the requirements of a weak electricity grid and so supports the development of distribution centres in remote areas. Secop intends to use the specific product range and new, innovative solutions to respond to the increasing demand for medical cold chains and support an efficient cooling network for the storage and delivery of medicinal products as well as the distribution of vaccines.

The Secop Group's **research & development** makes it possible to quickly respond to new trends in cooling solutions in response to market requirements and transform these into competitive products and solutions. The existing setup with permanent R&D sites allows the Group to focus on all areas of the compressor. The dedicated sites look closely at all the specific assemblies: electric motor, compressor unit as well as the associated electronics and applications. This enables the faster and more sustainable development of compressors. At the Secop Group, the R&D activities are supported by a CTO and a Programme Office, which ensured central management and supervision.

Focussing **production** at two sites in Slovakia and China allows overhead costs to be kept at a reasonable level while also developing and retaining valuable know-how at the sites. In addition, focussed efficiency measures can be developed close to production, which contribute towards cost savings and margin growth. The exchange of know-how between the sites also enables the development of measures to be split and subsequently exchanged for the benefit of the Group.

The focussed production setup can also lead to further opportunities in areas such as quality, energy savings, process optimisations, etc.

In **procurement**, the current setup of the Secop Group with its centrally managed purchasing and the two production sites is ideal for exploiting the benefits of Europe and Asia as well as generating economies of scale and synergies. This also makes it possible to identify new suppliers with more efficient and effective production, or that can provide other advantages, e.g. in terms of quality.

In summary the opportunity situation is considered good.

6 Risk report

Risk management system

Secop's risk management system supports the early identification and minimisation of potential risks that threaten the achievement of the planned objectives or the continued existence of the Company. The system enables risks to be quickly identified, assessed and adequate countermeasures to be taken.

Due to its complex processes, external factors and an intensely competitive market environment, the Company is exposed to business risks.

The early detection and assessment of opportunities and risks is an integral part of the planning, controlling and reporting process. The identified risks are analysed and necessary countermeasures are initiated depending on the probability of occurrence.

Cash management in particular is extremely important in the Secop Group. The cash flows within the Secop Group are optimised based on weekly, rolling liquidity planning as well as a quarterly company forecast together with strict controlling. This ensures that the Group always has adequate liquidity.

The occurrence of one or more of the risks described below can, individually or together, significantly impair the Secop Group's business activities and have material adverse effects on the net assets, financial position and results of operations of the Secop Group. The following risks may also retrospectively prove to be non-exhaustive. Other risks, aspects and uncertainties may exist, of which the Secop Group is currently unaware or which it does not consider material.

Market- and competition-related risks

- The Ukraine-Russia conflict may have a greater negative impact on the European and global economy and hence the Secop Group's business activities. While the direct effects of the conflict on the Secop Group have been limited to date, a protracted conflict or a deterioration in the situation may also indirectly have greater consequences for the Secop Group, e.g. with further rises in commodity or energy prices, a general weakening in demand or the like. The Company considers the risk as moderate.

- The technology competition between the USA and China in the field of semiconductors could pose a risk for the procurement of semiconductors. The increasing isolation of China in the area of semiconductor innovations could lead to a shortage of available semiconductors as well as higher prices for available semiconductors. The Company is not yet reliant on these high-tech semiconductors and, as such, the Company considers this risk as low.

- An unexpected, widespread recurrence of new, more aggressive and resistant Covid-19 mutations and resulting government lockdown measures poses a continued risk of an unforeseen decline in revenue. Possible delivery bottlenecks (e.g. of electronic components or "chips") due to the temporary closure of supplier production facilities may affect the production and thus the sale of Secop compressors. Investment projects and new product launches by major customers could be suspended or delayed, as there may be a certain degree of uncertainty about future economic developments. Secop management considers this risk as low.

- The progressive concentration in the market for cooling applications could lead to the loss of customers, reduce the market share of existing customers or give other customers greater market power in relation to the Secop Group, leading to additional price pressure. Secop management considers this risk as low.

- The market for hermetic compressors is characterised by high competitive pressure with, in some cases, highly variable raw material costs, which could lead to a situation in which Secop is not able to sell its products at prices above production costs. This risk primarily exists for less technologically advanced products.

Irrespective of this, Secop always aims to pass rising raw material costs on to its customers. Secop management considers this risk as moderate.

- In the sale of its products, the Secop Group relies on, among other things, key customers and their purchasing behaviour as well as the market success of the products of its customers. It has different customer groups in each of its business areas, all of which are exposed to different economic developments. The Stationary Cooling segment services manufacturers (OEMs) of cooling appliances for commercial applications. The establishment of new Asian competitors in their market may also place pressure on their sales markets. This could have an impact on Secop. Secop management considers this risk as moderate.

Operational risks

Production risk

- The Company uses a wide range of machines, tools and consumables for production. A sudden failure of this equipment or a lack of availability of consumables could influence the production of compressors. The Secop Group therefore carries out preventive maintenance of its machines and has a system-supported procurement policy for tools and consumables to ensure constant availability. Secop management considers this risk as low.

Quality risk

- The quality of the goods produced is extremely important for the Secop Group. Any deviation from the supplied quality has an influence on the product properties, which could in turn lead to failures during operation by customers. The Secop Group therefore constantly monitors the quality of the products through internal testing. In addition, the Company has introduced quality management systems that are certified by external auditors at regular intervals. The Company is certified in accordance with ISO 9001, 14001 and 45001. Secop management considers this risk as low.

Procurement risk

- The prices and availability of certain raw materials can have an impact on the Secop Group. It is exposed to market-related price fluctuations for some commodities, e.g. copper, steel and aluminium. In addition, some commodities are exclusively traded in foreign currencies, so exchange rates have an influence on commodity prices. Moreover, risks related to the timely delivery of input materials exist, particularly for materials for which only one supplier is available (single sourcing). Changes to procurement prices are passed on to customers wherever possible. Furthermore, long-term agreements on procurement prices are reached where possible. Dependence on individual suppliers is countered by qualifying several sources wherever possible. Overall, Secop management considers this risk as low.

Personnel risk

- Employees are essential to the success of the Secop Group. The loss of employees, e.g. in the R&D department, could lead to a loss of capacity for innovation that could influence the Company. The production sites are also heavily reliant on the quality of the personnel, meaning that any shortage could have an impact on business operations. The Secop Group therefore maintains training and development measures, among other things, in order to minimise the personnel risk. Secop management considers this risk as moderate.

Corporate risks

- The Secop Group is exposed to risks due to high research and development costs. These research and development costs are critical for Secop’s future development and are therefore essential for future economic success. However, Secop cannot rule out the possibility that past or future research and development costs will not be able to be (fully) recovered by the subsequent sale of the developed products, e.g. because a product is ultimately not able to be successfully launched on the market. To counter this, market analyses and studies are carried out in parallel to the research and development process in order to avoid misinvestments. Secop management considers this risk as moderate.

- Disruptions to and failures of the IT system could negatively impact on the course of business. The Secop Group uses IT systems that are necessary for proper administration as well as reporting, management and stock management. To do so, the Secop Group procures IT services and uses IT systems supplied by external providers. The data centres and IT infrastructure are outsourced to third parties. The Secop Group counters the risk of disruption to the proper operation of the IT systems by third parties by concluding appropriate service level agreements (SLAs) in the contracts that cover availability/processing times. Secop management considers this risk as low.

- Existing control and monitoring systems could potentially prove inadequate for preventing violations by employees, representatives or partners, or fail to uncover violations after they have occurred. The Secop Group has published an Ethics Guide for all employees to reinforce the applicable compliance principles and taken additional measures to prevent compliance violations and ensure their early detection. In particular, it has clarified and raised awareness of price fixing that has occurred in the industry in the past. Secop management considers this risk as low.

- The Secop Group is not currently aware of any tax risks that would have a material influence on the net assets, financial position and results of operations. Nevertheless, it is possible that tax authorities may interpret, for example, alternatives or certain structural options differently to the Company, ultimately resulting in a higher tax expense. The Company counters this risk by consulting external specialists in tax matters. Secop management considers this risk as low.

- Legal risks could arise from non-compliance with laws or contractual obligations and have a material influence on net assets, financial position and results of operations. Secop has introduced an Ethics Manual, which is mandatory for all employees, to ensure legal compliance. In addition, the Company has implemented a whistle-blower system to detect possible violations at an early stage. The Group has also committed to compliance with minimum global standard in supply chains based on the UN standards. Secop management therefore considers this risk as low.

Risk reporting in relation to the use of financial instruments

The Secop Group's principal financial liabilities comprise interest-bearing loans and borrowings, including the issued bond, and other financial liabilities as well as trade payables. The main purpose of these financial liabilities is to finance the Secop Group's operations.

The Secop Group's principal financial assets include trade receivables as well as cash and bank balances that derive directly from its operations.

The Secop Group is exposed to a number of financial risks in the course of its business operations, including market risk, credit and liquidity risk. Secop Group management oversees the management of these risks. Derivative financial instruments are not currently in use.

<u>Market risk</u>

Market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risks, such as commodity risk (see "Procurement risk"). Financial instruments affected by market risk primarily include cash and bank balances, variable-interest loans and other financial liabilities.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Secop Group manages its interest rate risk by agreeing fixed-rate loan conditions (where possible) as well as by arranging early repayment options, especially for variable-rate, medium- and long-term loans. Interest rate swaps and comparable instruments are reviewed as necessary. The conditions of the variable-rate bond also stipulate that special repayments are possible within a defined framework, as well as the targeted purchase of bond coupons on the market. On the other hand, the Secop Group can sell bond tranches back to the market. Secop management considers this risk as moderate.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Secop Group's exposure to the risk of changes in foreign exchange rates relates to the Secop Group's operating activities (when revenue and/or expense is denominated in a foreign currency) and the Secop Group's net investments in foreign subsidiaries, especially with regard to USD and RMB. Through the targeted management of Group purchasing, Secop endeavours to close out open currency positions to the extent possible and so achieve a "natural hedge". In addition, Secop constantly monitors price developments in order to employ hedging instruments as needed on the basis of corporate planning. Exchange rate fluctuations can also have a negative impact on the demand side, if currency prices allow competitors from other countries to offer cheaper products. Secop management currently considers the currency risk as moderate.

<u>Default risk</u>

The Secop Group uses a multi-stage process to counter the risk of customer defaults. First, various mechanisms (credit insurance and rating agencies) are used to review the solvency of customers. Moreover, overdue customer receivables are discussed with the sales directors in a weekly meeting and, where applicable, actions are taken ranging from the adjustment of the terms of payment through to the legal enforcement of the receivables. Secop management considers the risk of default of customer receivables as moderate.

The Secop Group counters the risk of bank failure through a diversified portfolio of banks, the selection of banks according to their offer, benefit and reliability for the Secop Group, but also according to the rating of the respective banks. In addition, the amount of foreign and domestic bank balances is regularly monitored in order to limit the amount of possible defaults, if necessary. Secop management considers this risk as low.

Liquidity risk

Liquidity risk is the risk that the cash and cash equivalents required to settle payments due cannot be procured or only at high refinancing costs. This also includes the risk of the early repayment of financial liabilities, which would be highly relevant for the liquidity of the Secop Group.

The bond issued in the 2020 financial year obliges the Secop Group to adhere to financial covenants and other contractual obligations. If there were a break in the financial covenants and other contractual obligations and if this break could not be remedied or alternative sources of finance could not be found at short notice, this would have an impact on the Secop Group's ability to continue as a going concern. The Company counters the risk through regular reporting and a preventive regular review of the contractual financial covenants and other contractual obligations to be observed.

The Secop Group counters the liquidity risk through active liquidity management, which offers the following options:

- Active management of working capital and future investments,
- Flexible use of a "revolving credit facility" in Slovakia,
- Use and, if necessary, expansion of factoring lines,
- Use of the supply chain financing lines in China as well as
- Targeted purchase and sale of the issued bond.

Management considers the contractual hurdles in the context of the bond financing to be relatively moderate. The liquidity risk is therefore classified as low.

Summary presentation of the risk position

Management believes that the risks to the Secop Group described above are manageable and that any threat to the continued existence of the Company is unlikely, even with respect to risk aggregation. Risks that are not currently considered relevant are monitored by management in order to identify any adverse effect, which cannot be fundamentally precluded, in good time and to allow appropriate countermeasures to be promptly initiated.

Flensburg, 24 March 2023

Jan Ehlers	Michael Engelen
Managing Director	Managing Director

INDEPENDENT AUDITOR'S REPORT

To Secop Group Holding GmbH, Flensburg

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

AUDIT OPINIONS

We have audited the consolidated financial statements of Secop Group Holding GmbH, Flensburg, and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the financial year from 1 January 2022 to 31 December 2022, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In addition, we have audited the group management report of Secop Group Holding GmbH, Flensburg, for the financial year from 1 January 2022 to 31 December 2022. In accordance with German legal requirements we have not audited the parts of the group management report specified in the "Other Information" section.

In our opinion, on the basis of the knowledge obtained in the audit,

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e(1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at 31 December 2022 and of its financial performance for the financial year from 1 January 2022 to 31 December 2022, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development. Our audit opinion on the group management report does not cover the content of the parts

  of the group management report specified in the "OTHER INFORMATION" section.

Pursuant to Section 322(3) sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

BASIS FOR THE AUDIT OPINIONS

We conducted our audit of the consolidated financial statements and of the group management report in accordance with Section 317 HGB and the EU Audit Regulation (No. 537/2014, the “EU Audit Regulation”)in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the “AUDITOR’S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT” section of our auditor’s report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements.

In addition, in accordance with Article 10(2) lit. f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5(1) of the EU Audit Regulation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

KEY AUDIT MATTERS IN THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements for the financial year from 1 January 2022 to 31 December 2022. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

Recoverability of intangible assets

Matter

As at 31 December 2022, the Company reports “intangible assets” of EUR 61 million (24% of total assets) in the consolidated financial statements. Of these, EUR 39 million are capitalised development costs. On every reporting date, the carrying amounts of the own developments of the Group are tested to identify any evidence of impairment. If evidence of impairment is identified, the recoverable amount of the asset is estimated in order to determine the extent of any impairment expense. Intangible assets with indefinite useful lives are tested for impairment annually at the cash-generating unit level and when circumstances indicate that the carrying value may be impaired.

The assessment of recoverability requires a number of judgements to be made by executive directors. The basis for assessing the recoverability of this item are the future cash flows, which are derived from the budget calculations prepared by the executive directors as well as the determined capitalisation rates. The budget calculations are based in particular on expectations of future increases in revenue. Given the uncertainties inherent in judgements and estimates and the amount of the balance sheet item, the recoverability of intangible assets was a key audit matter in conducting our audit.

The information provided by Secop Group Holding GmbH on the intangible assets are contained in sections 2.2, 3 and 10 of the notes.

Audit approach

We reviewed the assessment of the executive directors in relation to the recoverability of the intangible assets. First, we assessed the adequacy of the valuation techniques used for the impairment tests. Then, we scrutinised and verified the plausibility of the underlying planning assumptions. To do so, we documented the planning process, assessed the adherence to the budget and reviewed the consistency of the existing plans in consideration of the economic market environment. We also reviewed the adequacy of the capitalisation rate used.

OTHER INFORMATION

The executive directors are responsible for the other information. The other information comprises the following non-audited parts of the group management report:

- the non-financial group statement referred to in section 1.2 of the group management report

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of audit conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

RESPONSIBILITIES OF THE EXECUTIVE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS AND THE GROUP MANAGEMENT REPORT

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e(1) HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal controls as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud (i.e. manipulation of the accounts and financial losses) or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS AND OF THE GROUP MANAGEMENT REPORT

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and the EU Audit Regulation in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- Evaluate the presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRS as adopted by the EU and the additional requirements of German commercial law pursuant to section 315e(1) HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the actions or safeguards taken to eliminate risks to independence.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

FURTHER INFORMATION PURSUANT TO ARTICLE 10 OF THE EU AUDIT REGULATION

We were elected as group auditor by the annual general meeting on 18 October 2022. We were engaged by the management board on 18 October 2022. We have been the group auditor of Secop Group Holding GmbH without interruption since the financial year 2021.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

GERMAN PUBLIC AUDITOR RESPONSIBLE FOR THE ENGAGEMENT

The German Public Auditor responsible for the engagement is Dr Ralf

Wißmann. Kiel, 24 March 2023

BDO AG
Wirtschaftsprüfungsgesellschaft

QES Qualifizierte elektronische Signatur - Deutsches Recht
Heesch
Wirtschaftsprüfer
(German Public Auditor)

QES Qualifizierte elektronische Signatur - Deutsches Recht
Dr Wißmann
Wirtschaftsprüfer
(German Public Auditor)

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