Secop Group Holding GmbH,
Flensburg

Group management report 2021

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 29 January 2024 on the open 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

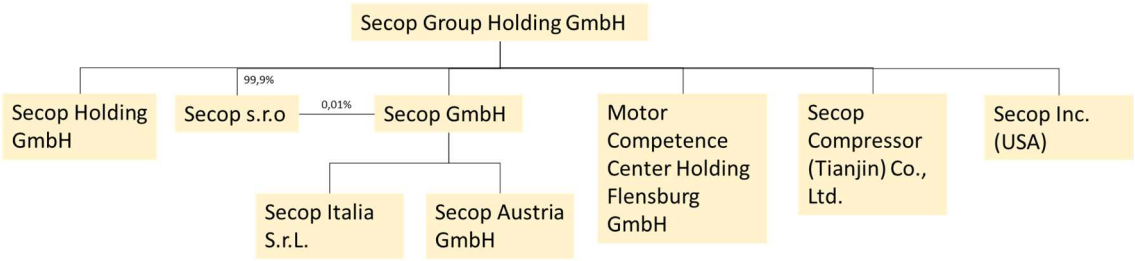
The Secop Group develops, produces and sells hermetic compressors for cooling applications worldwide. In pursuing this business, it uses raw and input materials, such as steel, copper, aluminium and electrical components that are essential for the compressor control systems. The raw materials are used 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 truck refrigerators, car minibars, spot coolers, battery/accumulator coolers in the telecommunications sector and cool boxes for private and medical applications.

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), Motor Competence Center 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 and production site (production activities ceased in December 2020). This is joined by Secop Inc. (Roswell/USA) a sales and service company and Secop Italia S.r.l. (Pordenone/Italy) a sales and marketing support unit. Both Secop GmbH as well as the production sites sell compressors to third parties. The development expertise primarily resides in the Austrian site in Gleisdorf (near Graz) and the Motor Competence Center GmbH in Flensburg (Germany). The sales activities for

the European sites are managed by German company Secop GmbH, while Secop Compressors (Tianjin) Co., Ltd. has production capacities as well as a separate 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 future core business are the Stationary Cooling and Mobile Cooling divisions. In the coming years, Secop's resources, investment funds and general focus will primarily target these two 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 intrayear 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 EBITDA figures. All key figures are recorded and monitored in the uniform Group reporting system. For the calculation of EBITDA, please refer to section 2.2 Business development and situation. Moreover, management receives regular updates on the turnover, the "adjusted" cost of sales (cost of sales not including the costs for depreciation and overheads) and the gross profit (revenue less "adapted" 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

In 2021, Secop restructured its global R&D organisation; implementing and consolidating changes. The Motor Competence Center with the “Electric Motors”, “Electrical Equipment” and “Electronic Control Units” divisions, whose administration is located in Flensburg (Germany), reports to the head of global CTO and operates as an R&D supplier in the Secop Group. The Gleisdorf site (Austria) is home to the new development centre for mechanical design with the intention of gaining access to the know-how in the development of car engines in the Graz region (Austria). The research and development activities in Austria are focussed on advance development for new compressor platforms, new areas of application and new processing technologies. The continued development of product platforms to increase efficiency takes place in Austria as well as in the respective plants in Slovakia or China in which the product platform is being produced. The third element in the R&D organisation is the Project Management and Product Engineering. It operates globally and supervises the design and implementation of new products and the improvement of existing products. The new structure is intended to reduce project durations and improve the quality of the R&D results.

In addition to the structure, the product development process has been updated by upgrading project management tools to the latest state of the art. The optimisation of cross-divisional committees led to the greater consideration of market and customer requirements in the development pipeline. This resulted in a consolidated and coordinated development roadmap within the company that enables a continuous flow of innovation. The resources are assigned according to the corporate priorities and extend from an initial outline of the ideas through to the start of series production.

Secop’s priorities in its product development activities include “green” refrigerants, improving energy efficiencies, compactness and streamlining the use of raw materials.

In 2021, Secop turned its focus to developing compressors in the medical field. As a first step, existing models were refined and advanced for ultra-low temperatures (>-80°C), whose rapid distribution was ensured by the Covid-19 crisis. The next development step is to optimise these compressors in 2022, which are even better equipped and certified specifically for use in two-stage ultra-low temperature cascade refrigeration systems and temperatures >= -80 °C. In this field, the Secop Group is also working together with non-profit foundations to reduce electricity consumption even further to a level that can be supplied by solar panels.

In the area of mobile cooling, an additional modern platform/compressor type, the BDnano product, was manufactured in the 2021 financial year. This supports a further drop in energy consumption and is smaller in size together with an optimised noise level and vibrations. Production of the BDnano is expected to commence in 2022.

In the refrigeration compressors market segment there is a firm trend towards speed-controlled compressors. The resulting flexibility to respond to different cooling requirements with variable refrigeration output by the compressor provides a range of possible new applications:

When there is a greater need for cooling, such as in pull-down mode, the speed can be increased in order to boost the cooling power. When the need for cooling is lower, such as in sustainment mode, the speed can be reduced to a very low level, which simultaneously minimises the noise level.

In the past year, Secop has been working on a new speed-controlled generation of compressors. The resulting competitive advantage is primarily the result of long-term collaboration with universities and private research and development partners.

In 2021, the Group's R&D expense amounted to € 14.0 million (previous year: € 12.3 million). A total of 57% (previous year: 64%) was capitalised in the financial year. An average of around 150 employees work in the area of R&D. The Secop Group registers potential patents to safeguard the research and development results.

2 Economic report

2.1 Macroeconomic and sector-specific conditions

Despite the Covid-19 pandemic and a sharp recession the previous year, the German economy bounced back with 2.7% growth in gross domestic product in 2021, which is similar to the growth rates prior to the Covid-19 pandemic. Similar to the economic and financial crisis in 2008 and 2009, gross domestic product fell by 5.0% in 2020.[1]

Despite the partial lockdown, industrial production continued to improve in 2021, as did the orders received by the manufacturing industries. This indicates that industry, in contrast to 2020, was less heavily affected by the measures.[1]

The labour market developed positively in spite of the partial lockdown[1]. The seasonally-adjusted employment activity increased significantly in November, while the seasonally-adjusted unemployment rate once again fell sharply in December 2021.[1]

Exports of goods and services continued to improve in November 2021. A look at the national leading indicators shows a gap between supply and demand. The ifo export expectations for the manufacturing industries point to difficulties satisfying global demand. International incoming orders increased in November (+8.0%) from the previous month to their fourth-highest levels since 1991. The expectations for German foreign trade are fundamentally optimistic despite the measures to combat the pandemic and the global supply bottlenecks.[1]

China, as the origin and initial epicentre of the Covid-19 pandemic, was the only major economy to report positive economic growth[2]. It grew by 11.7% in the second quarter of 2021[2] and, in the third quarter it recorded moderate price- and seasonally-adjusted GDP growth of 2.7% compared to the previous quarter or 4.9% compared to the previous year.[2]

For China, the October forecast of the Federal Ministry for Economic Affairs and Climate Action still expects growth in the current year, with economic performance set to increase by 1.9%. A strong rise of 8.0% was reported for 2021, with expectations of 5.3% growth for 2022.[2]

The overall market for compressors (volume of around 60 million compressors) is a growth market with expected growth of 5.5% p.a. (2016 to 2023). The reasons for this are the increasing areas of application of refrigerators (food, trade, transport, pharmaceuticals, etc.) as well as the rising demand due to rising global temperatures as well as population growth. We currently believe it to be highly unlikely that the Covid-19 pandemic will lead to any significant fall in overall demand.

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[1] Source: Press release by the Federal Ministry for Economic Affairs and Climate Action of 14 January 2022
[2] BMWI Schlaglichter der Wirtschaftspolitik Dezember 2021

Secop products are vital appliances, e.g. in the health sector for maintaining cold chains and for supplying the population with refrigerated food or health products (e.g. vaccines).

Overall growth in the commercial refrigeration market was reported for the stationary cooling segment. The food service market recorded good demand from hotels, restaurants and catering, driven by a good seasonal result in these segments, which recovered from the fall in demand caused by the effects of Covid-19. The medical segment continued to report strong demand, boosted by medical projects worldwide as well as for the cold chains of vaccines and storage in pharmaceutical laboratories. The food retail segment recorded a positive level of demand due to good investments in the food and beverage markets. Other segments, such as bottle coolers, freezers and beverage dispensers, also posted solid demand, supported by strong consumer demand.

The mobile cooling segment posted outstanding demand throughout the entire year. The automotive segment registered growing demand for both car as well as lorry applications. The leisure industry recorded good demand for recreational vehicles and mobile cooling solutions, which confirmed the positive trends generated by new consumption habits for food and beverages under mobility conditions.

2.2 Business development and situation

2021 was a good year in terms of the demand and order level and confirmed the recovery trend from the 2020 financial year, which was heavily influenced by the effects of Covid-19. The Secop Group reported solid, excellent demand in all core application segments: food retail, food service, medical, automotive and leisure. Despite the persistent global Covid-19 pandemic, Secop was able to increase revenue in 2021.

The forecast revenue for 2021 was significantly exceeded, but the forecast EBITDA was not reached.

On the other hand, the business was negatively affected by the significant restrictions in the supply chain, especially for electronic components. Obstacles to the availability of electronic parts and the associated long lead time had a negative impact on our ability to satisfy the high market demand. The supply bottleneck made it impossible to meet the overall demand for electronically operated compressors. A situation that was further complicated by transport embargoes for goods produced in China. Raw material prices remained high throughout the year, impacting on the costs of the compressors. Besides the material costs, transport costs also increased dramatically. To respond to the rise in material and transport costs and offset the associated effects on the costs of compressors, the price list was adjusted twice in 2021 in order to reflect the higher costs.

The legal situation remained largely unchanged for Secop in 2021, the only significant change was the merger of Motor Competence Centrum GmbH with Motor Competence Centrum Holding GmbH.

The gross profit margins achieved in 2021 remained stable compared to 2020, while the gross margin (revenue less cost of sales) of around 20% of revenue remained at the same level reported in 2020.

In 2020, the comprehensive income was negatively affected predominantly by the one-off effects as part of Secop's realignment activities, although a significant share of other expenses and part of the interest expense did not have any impact on cash position. The operating result (EBITDA) of € 20.1 million (previous year: € 0.2 million) improved significantly year-on-year.

Overall, in light of the considerable challenges in 2021, management is satisfied with the economic performance of the Secop Group up to the end of 2021 in spite of the ongoing difficulties within the supply chain. In summary, the forecast revenue values were able to be significantly exceeded, as customers accepted higher prices given Secop's constant delivery capacity in 2021. Unfortunately, forecast EBITDA was not able to be achieved due primarily to the sharp rise in material prices in the second half of the year.

EBITDA is calculated as follows:

	2021	**2020**
	T€	**T€**
Revenue	**300,466**	**271,848**
Cost of sales	**-240,169**	**-216,236**
Gross profit	**60,296**	**55,613**
Other operating income	8,398	17,797
Selling and distribution expenses	-22,484	-17,858
Administrative expenses	-18,910	-18,753
Other expenses	-18,247	-61,574
Operating profit	**9,053**	**-24,775**
plus depreciation contained therein	11,144	24,937
EBITDA	**20,198**	**162**

2.2.1 Profit situation

	2021	2020	Change
	T€	T€	T€
Revenue	**300,466**	**271,848**	28,618
Cost of sales	**-240,169**	**-216,235**	-23,934
Gross profit	**60,296**	**55,613**	**4,683**
Other operating income	8,398	17,797	-9,399
Selling and distribution expenses	-22,484	-17,858	-4,626
Administrative expenses	-18,910	-18,753	-157
Other expenses	-18,247	-61,574	43,327
Operating profit	**9,053**	**-24,775**	**33,828**
Financial expenses	-9,911	-10,874	963
Financial income	993	7	985.51491
Profit before tax	**135**	**-35,642**	**35,777**
Income tax expense	1,872	1,275	597
Accounting profit/loss	**2,006**	**-34,367**	**36,373**

Revenue of € 300.5 million in 2021 rose slightly year-on-year. The personnel expenses contained in the cost of sales, distribution costs, administration costs and other costs of € 44.9 million in 2021 (previous year: € 56.5 million) were able to be reduced from 21% to 14% as a percentage of revenue. Secop took a very diligent approach to personnel expenses during the Covid-19 pandemic.

The depreciation contained in the cost of sales, distribution costs, administration costs and other costs in the 2021 financial year totalled € 11.1 million (previous year: € 24.9 million). Depreciation in the 2020 financial year was primarily impacted by one-off items (e.g. by the adjustment in the machinery and equipment for product platforms XV and T in Slovakia in the amount of € 9.0 million and the discontinuation of the production facility and realignment of the company in Austria predominantly to research and development). Compared to 2020, depreciation also fell in the 2021 financial year in consideration of the one-off effects in 2020. Measured as a percentage of revenue, the depreciation rate declined from 9% last year to 4% in 2021.

The segments recorded positive growth in the 2021 financial year. Stationary Cooling grew by 34% compared to 2020, while the cost of sales increased by 44% year-on-year. This increase is due to the increasing pressure on material and energy prices towards the end of the financial year. In the Mobile Cooling segment, revenue increased by 36% compared to 2020. The cost of sales in this segment increased by just 34% year-on-year.

Segment	2021 Stationary Cooling **T€**	2021 Mobile Cooling **T€**	2020 Stationary Cooling **T€**	2020 Mobile Cooling **T€**
Revenue	223,264	77,202	166,524	56,665
"Adjusted" cost of sales	177,364	50,154	123,566	37,516
Gross profit	45,900	27,048	42,958	19,149

This breakdown shows that 74% of revenue is generated by the Stationary Cooling segment and 26% by the Mobile Cooling segment.

As expected, the important operating result ("gross profit") indicator was slightly positive, rising by 17% even though the 2020 result continued to be influenced by one-off effects, such as the restructuring in Austria.

The interest income (financing costs less financial income) remained stable following the refinancing in 2020. Overall, interest expenses fell slightly (-€ 1.2 million). The refinancing by the bond led to higher interest expenses in this area (+€ 1.2 million), as the bond was issued last year on 28 July 2020. At the same time, interest expenses for shareholder loans were able to be reduced (-€ 2.9 million).

The ongoing tax expenses in the 2021 financial year are heavily dependent on the national companies in China, which decreased year-on-year. Conversely, the continued recognition of deferred taxes on loss carryforwards at the German and Slovakian companies had a positive impact on the deferred tax result in the 2021 financial year, which was partly able to overcompensate the ongoing tax expense.

2.2.2 Financial situation

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 last year.

On 28 July 2020 a senior secured floating rate bond with an initial volume of € 50.0 million and a term until 29 January 2024 was issued on the open market with a variable interest rate, initially set at 6.75%. The bond has been listed on the stock exchange in Stockholm (Sweden) since 2021. 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. In addition, the Secop Group is obliged to comply with 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 2021 nominal bond liabilities totalled € 37.8 million (excluding interest).

The short-term liquidity requirements are predominantly covered by operating cash flow.

Analysis of the statement of cash flows

Consolidated statement of cash flows

for the period from 1 January to 31 December 2021

	2021	2020
	T€	T€
Operating activities		
Profit before tax	*135*	*-35,641*
Depreciation and impairment of property, plant and equipment, intangible assets and right-of-use assets	11,144	24,937
Revaluation of property, plant, and equipment, intangible assets and right-of-use assets	0	-628
Net foreign exchange differences	3,272	-187
Loss on disposal of property, plant and equipment, intangible assets and right-of-use assets	-62	964
Escrow allowance	0	24,100
Financial income	-993	-7
Financial expenses	9,911	10,874
Changes in long term provisions	-312	-822
Decrease/(increase) in trade receivables and short term assets	-11,433	13,992
Increase in inventories	-15,134	10,339
Decrease/(increase) in trade payables, other liabilities and short term provisions	14,210	-11,309
Income tax paid	-1,332	-5,387
Net cash flows from operating activities	***9,408***	***31,224***
Investing activities		
Proceeds from sale of property, plant and equipment, intangible assets and right-of-use assets	334	17,848
Purchase of property, plant and equipment, intangible assets and right-of-use assets	-23,141	-22,227
Decrease of financial investment (*escrow account of Slovakia*)	8,881	3,140
Net cash flows used in investing activities	***-13,926***	***-1,238***
Financing activities		
Interest and fees paid	-5,953	-6,549
Interest received	1,640	0
Payment of principal portion of lease liabilities	-1,067	-921
Proceeds from borrowings	81	55,025
BOND purchase	-4,131	0
Repayment of borrowings	-2,307	-75,068
Net cash flows from financing activities	***-11,736***	***-27,513***
Increase/decrease in cash and cash equivalents	**-16,255**	**2,473**
Cash and cash equivalents at 1 January	29,304	26,831
Cash and cash equivalents at 31 December	**13,049**	**29,304**

The cash flows from operating activities in the 2021 financial year deteriorated by € 21.8 million year-on-year to € 9.4 million. Earnings before taxes improved to € 35.5 million compared to 2020. However, the cash flow was negatively influenced in particular by the increase in inventories and receivables in the amount of € 50.9 million. In addition, a further decline in depreciation due to special depreciation allowances in 2020 of € 13.7 million and the decline in trade payables by approximately € 25.5 million had a positive effect on the cash flow.

Cash flow from investment activity deteriorated by € 12.6 million. The 2020 financial year included the positive contribution from the sale of the Delta production line in Austria to Nidec at the end of the first quarter of 2021 as well as the withdrawal of additional financial amounts from the escrow accounts for investments in the production facility in Slovakia. Significant investments were made in product development. This resulted in particular in the additions to intangible assets (in the area of development costs) totalling € 8.0 million. Investments were also made in the plant in China.

The cash flow from financing activity in the 2021 financial year of -€ 11.7 million is primarily due to the interest paid for the bond of -€ 5.9 million, the repurchase of part of the bond in 2021 of € 4 million as well as the loan repayment of -€ 2.1 million. The 2020 financial year was primarily characterised by shareholder loans in the amount of -€ 65.8 million and a bond issue of +€ 55 million.

In summary, the Group's cash and cash equivalents fell by € 16.2 million between 31 December 2020 and 31 December 2021, totalling € 13.1 million on the reporting date.

The Secop Group was able to meet its payment obligations at all times in 2021.

2.2.3 Financial position

	31/12/2021 T€	31/12/2020 T€
Assets		
Non-current assets		
Property, plant and equipment	85,621	77,675
Intangible assets	58,888	54,876
Right-of-use assets	7,416	5,096
Deferred tax assets	1,133	1,412
	153,058	**139,060**
Current assets		
Inventories	50,483	34,082
Trade receivables	52,437	44,309
Other financial assets	4,693	10,099
Other non-financial assets	11,566	10,580
Cash and bank balances	13,049	29,304
	132,228	**128,374**
Total assets	**285,286**	**267,433**
Equity and liabilities		
Equity		
Subscribed capital	25	25
Other capital reserves	1,975	1,975
Retained earnings	33,271	32,722
Other reserves	4,426	-1,565
Total equity	**39,697**	**33,157**
Non-current liabilities		
Interest-bearing loans and borrowings	101,977	103,242
Other financial liabilities	7,481	5,252
Other non-financial liabilities	0	0
Provisions	2,576	1,862
Net employee defined benefit liabilities	4,085	4,599
Deferred tax liabilities	17,436	20,979
	133,555	**135,934**
Current liabilities		
Trade payables	72,102	53,734
Interest-bearing loans and borrowings	0	2,237
Other financial liabilities	20,943	20,769
Other non-financial liabilities	9,657	8,450
Provisions	9,332	13,152
	112,034	**98,343**
Total liabilities	**245,589**	**234,276**
Total assets	**285,286**	**267,433**

The increase in non-current assets over the previous financial year by € 14.0 million is primarily due to the increase in property, plant and equipment as a result of investments in the plants and the capitalised development expenses as well as the increase in the right-of-use assets resulting from the relocation of Secop GmbH.

Supply bottlenecks in electronic components led to a 48% increase in inventories compared to 2020. Trade receivables rose by 18% year-on-year due to the growth in revenue. The decline in other financial assets is attributable to the escrow account as well as the settlement of a receivable in relation to a factor totalling € 5.7 million.

Interest-bearing loans and borrowings reduced by 3% to 36% (previous year: 39%) of total assets. The increase in non-current interest-bearing loans and borrowings is primarily due to the interest on non-current loans less the intrayear repayment of € 4.0 million. Non-current interest-bearing loans and borrowings fell due to the repayment of the loans in 2021.

In July 2020 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.

The positive overall result in 2021 together with the decline in total assets led to an increase in the equity ratio to 14.0% (previous year: 12.4%). However, management considers the sum of equity and shareholder loans (excluding interest liabilities) of € 89.1 million (previous year: € 87.1 million) in relation to the total assets to be the more relevant ratio. As at 31 December 2021, this was 31% (previous year: 33%).

2.2.4 Summary statement

In summary, management considers the company to be in a sound economic position. The earnings situation improved significantly year-on-year, primarily due to the higher revenue as well as the successful restructuring commenced in 2020. However, higher material prices had a negative effect on the operating result, particularly in the second half. The financial restructuring with the bond issue also contributed to the better operating result by improving the financial result.

3 Supplementary report

Due to the ongoing Covid-19 pandemic, there continues to be a risk of an unforeseen decline in revenue. Possible supply shortages due to the temporary closure of supplier production facilities may affect the production and thus the sales of Secop compressors. Investment projects and new product launches at major customers could be suspended or delayed, as there may be a certain degree of uncertainty about future economic developments.

The events in Russia and Ukraine in 2022 have no impact on the business activities of the Secop Group, as the Secop Group reported revenue of just € 13 million in Russia in 2021. The Company continues to monitor the situation in order to minimise the risk for the Secop Group.

4 Outlook

Incoming orders rose slightly in the first quarter of 2022 year-on-year. The purchase prices for the materials (such as copper, steel, aluminium) required for the products sold by the Secop Group rose further in the first quarter of 2022 compared to the previous year and are likely to show a further upward trend. These cost increases will be passed on to our customers in the form of price rises where possible.

Increasing demand in the Mobile Cooling and Medical segments are forecast in 2022 together with more stable market demand in Stationary Cooling. Secop is planning to launch new products in 2022 to increase its market penetration in the Mobile Cooling and Stationary Cooling segments, position itself with green and highly efficient solutions and respond to market demands and new regulations. The market is confirming the trends behind the migration to green hydrocarbons and to refrigeration units with low energy consumption, and both trends will influence the demand for the new generation of compressors. Unfortunately, the lack of electronics will persist in 2022 and the supply chain will continue to suffer from delays and restrictions for electronically powered compressors. At the same time, the upside pressure on raw material prices is expected to remain and be exacerbated by the huge rise in energy costs.

The medium- and long-term outlook remains positive, as the underlying market drivers (e.g. increasing demand for cooling in emerging markets, switch to climate-neutral refrigerants and efficient refrigerators) remain in place.

Based on the above assessment of the market situation in the coming 2022 financial year as well as the market developments identified up to the date of preparation of the financial statements, Secop is forecasting revenue of € 325 million in 2022. The increase over the previous financial year (€ 300.5 million) is primarily explained by the constant sale of compressors at higher sales prices.

With regard to EBITDA, the Secop Group expects above-average growth in EBITDA year-on-year. Forecast EBITDA for 2022 is € 29.3 million (previous year: € 20.2 million). Key factors for the changes are the one-off effects in the 2022 financial year resulting from the higher sales prices and increased sales of products with higher margins.

5 Opportunities report

- The Secop Group will focus on the Stationary Cooling and Mobile Cooling segments with two modern production plants. This focus provides the opportunity to ensure the targeted use of existing resources for investments as well as research and development activities in the two profitable business areas. This should result in an opportunity to generate higher growth.
- Focussing production in Europe on a single site in Slovakia enables a significant reduction of fixed HR costs. This provides the opportunity to further optimise Secop's fixed cost structure as well as the profit margin.
- Since 2022, the restructured Secop Group has been much more receptive to M&A measures, which provides an opportunity for additions to the product or service area if economically attractive options are identified.

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. This is reflected by the weekly, rolling cash planning and cash control as well as short-term, rolling liquidity planning together with stringent controlling.

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

- Due to the ongoing Covid-19 pandemic, there continues to be a risk of an unforeseen decline in revenue. Possible supply bottlenecks (e.g. of electronic components or “chips”) due to the temporary closure of supplier production facilities may affect the production and thus the sales of Secop compressors. Investment projects and new product launches at 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 moderate.

- 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 intensely competitive 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.

Corporate risks

- The Secop Group is exposed to risks due to high research and development costs. These research and development costs are critical for the future development of Secop and are therefore vital for future economic success, as the market requires constant technological development and innovation. However, Secop cannot rule out that existing or future research and development costs may not be able to be recovered (in full) through the subsequent sale of the developed products. In addition, it is possible that, despite significant research and development costs, in the end the Secop Group is not able to successfully launch a product on the market, e.g. because competitors release a similar, but superior product shortly before the market launch or the technical specification necessary for a successful market launch cannot be established at competitive prices. 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 a 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 legal violations by employees, representatives or partners, especially during contract initiation, or fail to uncover violations after they have occurred. The Secop Group has released an Ethics Guide for all employees to reinforce the applicable compliance principles and take 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. However, Secop is fundamentally unable to comprehensively monitor the activities of employees, representatives and partners during contract initiation activities with customers. 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. 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. After the reporting date, the previous owner of Secop, the Nidec Group, initiated arbitration proceedings against SGH in Frankfurt (Germany). At its heart, the matter involves a difference of opinion on the amount of the final purchase price instalment (including interest) owed by SGH of approximately € 21 million. The Nidec Group initiated proceedings on 12 January 2021 and the response from SGH was submitted to the arbitration tribunal on 5 March 2021. No reliable prognosis can currently be given regarding the result and the timing of the results, but the decision by the arbitration tribunal could take until 2023. Secop management considers this risk as moderate.

Risk reporting in relation to the use of financial instruments

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, an ESCROW account included in other financial assets 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.

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. 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 interest-bearing loans and the bond. This makes it possible to respond 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. Secop management considers this risk as low.

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. In addition to the targeted expansion of group purchases in USD (instead of EUR), Secop GmbH also applies targeted hedging through the finance department. Planned Secop GmbH customer payments for the next few months in USD systematically serve as a basis.

Secop management currently considers the currency risk as moderate.

Raw material price risk

The Secop Group is affected by the price volatility of certain raw materials. Its operating activities require the ongoing purchase of raw materials. The Secop Group is exposed to changes in the prices of its forecast raw material purchases, e.g. copper, steel and aluminium. These are passed on to customers wherever possible. Secop management considers this risk as moderate.

Credit 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.

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 moderate.

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 contract concluded in the 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 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 regular 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 Secop Group therefore monitors the liquidity risk through active liquidity management, which offers the following options:

- Active management of working capital and future investments,
- Active management of a revolving credit facility (from 1 May 2021) in Slovakia,
- If liquidity is required, targeted sale of bonds currently held by SGH,
- If necessary, expansion of the factoring lines as well as
- The option to increase local bank lending volume in China.

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

Management does not consider there to be any single risk to the Secop Group that could threaten the continued existence of the company.

Summary presentation of the risk position

Following a detailed audit, management believes that the risks to the Secop Group described above are manageable and no aggregated risk threatens the continued existence of the company. 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, 28 March 2022

Jan Ehlers

Managing Director