Annual Financial Statements

dated

31 December 2022

of

Secop GmbH
Flensburg

Assets

	31 December 2022		Previous year	
	EUR	EUR		EUR
A. Non-current assets				
I. Intangible assets				
1. Concessions, industrial property rights, similar rights and titles and licenses to such assets	1.556.773,88		4.928.517,22	
2. Advance payments	25.747.842,04	27.304.615,92	19.220.826,07	24.149.343,29
II. Property, plant and equipment				
1. Technical plant and machinery	315.441,89		325.403,89	
2. Other systems, operational and business equipment	101.372,00		85.073,00	
3. 4. Advance payments and assets under construction	22.106,56	438.920,45	35.350,00	445.826,89
III. Financial assets				
Shares in corporate affiliates	9.010.750,00	9.010.750,00	9.010.750,00	9.010.750,00
		36.754.286,37		33.605.920,18
B. Current assets				
I. Receivables and other assets				
1. Trade receivables	9.345.924,61		17.840.390,52	
2. Receivables from corporate affiliates	15.104.405,72		14.727.427,48	
3. Other assets	4.099.809,32	28.550.139,65	4.873.244,54	37.441.062,54
II. Cash, credit balances with banks		5.002.429,62		2.299.840,66
		33.552.569,27		39.740.903,20
C. Deferred items		139.110,18		112.796,36
		70.445.965,82		73.459.619,74

Liabilities & Equity

	31 December 2022	Previous year
	EUR	EUR
A. Shareholders' equity		
I. Subscribed capital	26.000,00	26.000,00
II. Capital reserves	65.631.692,80	65.631.692,80
III. Loss carried forward	-30.102.116,99	-35.442.601,71
IV. Net loss for the year (previous year: net profit)	-11.113.891,45	5.340.484,72
	24.441.684,36	35.555.575,81
B. Provisions		
1. Pension provisions and similar obligations	3.876.264,00	3.697.870,00
2. Tax provisions	529.500,82	466.611,00
3. Other provisions	973.173,30	2.967.306,95
	5.378.938,12	7.131.787,95
C. Payables		
1. Trade payables	570.596,54	296.313,80
2. Liabilities to corporate affiliates	38.852.464,15	29.700.427,81
3. Other liabilities Thereof taxes EUR 54.375,24 (at. PY: EUR 57.152,91)	1.202.282,65	775.514,37
	40.625.343,34	30.772.255,98
	70.445.965,82	73.459.619,74

Secop GmbH, Flensburg

Profit and loss account for the period 1 January to 31 December 2022

		2022	2021
		EUR	EUR
1. Sales revenue		123.337.418,76	141.602.080,64
2. Other own work capitalised		6.527.017,66	3.978.372,00
3. Other operating income		1.907.241,45	2.903.189,18
-- of which from currency translation EUR 925,630.85 (PY.: EUR 905,162.06)--			
4. Cost of materials			
a) Expenses for raw, secondary production and production process materials and purchased goods	110.890.622,53		
b) Expenses for services purchased	9.386.646,76	120.277.269,29	120.935.095,23
5. Personnel expenses			
a) Wages and salaries	3.081.738,86		
b) Expenses for social security and retirement and support pensions	596.008,99	3.677.747,85	4.217.072,45
Thereof for retirement EUR 143.473,45 (PY: EUR 179.507,25)			
6. Amortisation of intangible non-current assets and depreciation of property, plant and equipment		3.475.158,44	3.738.897,08
7. Other operating expenses		14.549.439,08	12.891.807,92
thereof for Fx-revaluation EUR 606.169,94 (PY: EUR 607164.7500)			
8. Other interest and similar income		357.384,12	0,00
9. Interest and similar expenses		452.052,14	372.660,47
Thereof for subsidiaries EUR 112.888,87 (PY: EUR 45.916,28)			
Thereof for discounting EUR 124.527,00 (PY EUR 116.022,00)			
10. Earnings before taxes		-10.302.604,81	6.328.108,67
11. Income taxes		809.631,95	948.044,41
12. Earnings after taxes		-11.112.236,76	5.380.064,26
13. Other taxes		1.654,69	39.777,08
14. Net loss/profit for the year		-11.113.891,45	5.340.287,18

Secop GmbH, Flensburg

Notes to the Financial Statements for the period 1 January - 31 December 2022

I. General disclosures regarding the annual financial statements

The annual financial statements of Secop GmbH dated 31 December 2022 have been prepared in accordance with accounting rules under German Commercial Code and under the GmbH Act, observing generally accepted accounting principles.

The profit & loss account was prepared applying the total cost method.

The company is a large stock corporation per § 267 (3) HGB, and is registered under the company name Secop GmbH with registered office in Flensburg, commercial register record number HRB 8698 FL, kept by Flensburg Local Court.

The item "Earnings before taxes" was included in the profit & loss account to afford a clearer presentation.

II. Accounting, measurement and conversion methods

The following are the primary accounting and measurement methods applied to prepare the financial statements.

Intangible assets and property, plant and equipment

These items are stated at (acquisition or production) cost less scheduled, usage-related depreciation/amortisation. Advance payments are measured at nominal value. If the value of non-current assets measured applying the abovementioned principles is greater than their attributable fair value on the statement date, unscheduled depreciation/amortisation is recorded for this discrepancy. If the reasons for recording such unscheduled depreciation/amortisation in previous financial years no longer apply, a reversal/write-up is recorded.

Research and development expenses respectively are separately recorded in accordance with a project plan. Research expenses are not capitalised. The development phase, upon which capitalisation of development costs depends, commences upon ending of the concept phase, i.e., when the design or "project target setting" phase starts. Capitalised development output is measured as direct costs plus an overhead mark-up for expenses not directly related to the development project. Optional cost components are not included in production cost.

Scheduled depreciation is recorded on a straight-line basis over the estimated useful life as follows:

	Useful life Years
Concessions, industrial property rights and similar rights and titles	6 - 8
Technical systems/equipment	10 - 13
Business and office equipment	3- 5

Additions to movable property, plant and equipment assets are depreciated a straight-line basis pro rata.

Low-value assets with an acquisition cost of EUR 800.00 or less are fully depreciated in the year of acquisition. The generally accepted modified version of this simplification rule is followed. The year of purchase is taken as the year of disposal.

Financial assets

Shares in corporate affiliates are measured at the lower of acquisition cost or fair value if an impairment is expected to be permanent. A write-up as a mandatory impairment reversal up to the original cost is recorded if the circumstances causing a lasting impairment no longer apply.

Receivables and other assets

Receivables and other assets are carried at nominal value. Item-specific expected credit losses are recorded on these to reflect default risk.

Bank balances

Bank balances are carried at nominal value.

Deferred items

Expenses accruing in periods before the statement date are recorded as deferred assets if they represent an expense for a period after the statement date.

Shareholders' equity

Subscribed capital is carried at nominal value.

Provisions

Provisions for pensions and similar obligations are calculated via actuarial formula applying the projected unit credit method and an interest rate of 1.78% (previous year: 1.87%) p.a., referencing the Klaus Heubeck 2018 G mortality tables. The interest rate corresponds to the average market interest rate for the past ten years as published by the German Bundesbank, applying a remaining term of 15 years for pension obligations. An annual pension increase of 1.5% (previous year: 1.5%) was applied as basis for measuring pensions provisions and similar obligations. Annual wage and salary increases were not taken into account.

Provisions for service anniversary obligations are calculated via actuarial formula applying the projected unit credit method with an interest rate of 1.44% p.a. (previous year: 1.35%). The interest rate corresponds to the average market interest rate for the past seven years as published by the German Bundesbank, applying a remaining term of 15 years for service anniversary obligations. Annual wage and salary increases of 2.0% (previous year: 2.0%) were applied for measuring provisions for service anniversary obligations as well as an increase rate of 2.0% p.a. for the contribution assessment limit (previous year: 2.0%).

Other provisions are recorded to reflect all other identifiable risks and uncertain liabilities. These are measured at the net fulfilment amount deemable as necessary applying principles of prudent business judgement.

Liabilities

Liabilities are carried at their redemption amount.

The company utilises the option per § 274 (1) HGB of not recognising deferred tax assets.

Deferred tax assets are primarily recognised for temporary value differences for non-current assets, pension provisions and capitalised offsettable loss carryforwards. These were offset against deferred tax liabilities recognised for temporary differences affecting intangible assets and shares in corporate affiliates. The applicable tax rate is 30.18%.

Currency translation

Assets and liabilities in foreign currency are measured at the exchange rate applicable on the transaction date.

Current receivables and liabilities realisable/maturing in one year or less and bank balances in foreign currency are translated applying the average exchange rate for the balance sheet date.

Non-current foreign currency liabilities are measured at the greater of the bid exchange rate at the time the liability arises or the average exchange rate for the balance sheet date.

The imparity principle is applied for any resulting gains or losses.

III. Notes to the annual financial statements

Notes on the balance sheet

Non-current assets

Please refer to the schedule of gross non-current assets for the period 1 January 2022 to 31 December 2022, attached to the Notes (change in non-current assets). Capitalised development costs include such costs from projects for the electronics of the future variable speed generation (BDnano, SLV, DLV, NLV) and for the Kappa product generations.

Development project costs in which technical development work has not yet been completed are shown reported as advance payments on intangible assets. These concern contractually agreed, paid development services provided by corporate affiliates.

An impairment of EUR 2,369 thousand was recorded on intangible assets during the year under review. This impairment is for capitalised development costs for the former Household division (XV generation), for which an unscheduled write-down was recorded during the financial year.

In connection with the capitalisation of the development costs, an amount of EUR 27,304 thousand is restricted from distribution per § 286 (8) of German Commercial Code (HGB).

Shareholdings

Overview of financial investments:

		% equity stake	Shareholders' equity	Net income for the year
Name	**Domicile**		**kEUR**	**kEUR**
Secop Austria GmbH	Gleisdorf, Austria	100	4,324	394
Secop Italia s.r.l.	Milan, Italy	100	422	63

Trade accounts receivable

Trade receivables of EUR 9,346 thousand are due within a period of one year (previous year EUR 17,840 thousand).

Receivables from affiliated companies

Receivables from corporate affiliates amounted to EUR 15,104 thousand (previous year: EUR 14,727 thousand), of which EUR 13,693 thousand represented trade receivables (previous year: EUR 13,327 thousand) and EUR 1,411 thousand represented other receivables from shareholders (previous year: EUR 1,400 thousand).

As in the previous year, all receivables are due within a period of one year.

Share capital

Share capital totals EUR 26,000.00.

Pension provisions and similar obligations

The difference per § 253 (6) HGB, i.e. the difference between pension provisions measured at the average market interest rate for the past seven years (EUR 4,086 thousand) and pension provisions measured at the average market interest rate for the last ten years (EUR 3,876 thousand) as of 31 December 2021 was EUR 210 thousand (previous year: EUR 327 thousand). The difference amount between provisions for pension obligations recorded when applying the seven-year rate versus the ten-year average interest rate is restricted from distribution if this amount cannot be covered by freely available reserves remaining after the distribution plus a profit carryforward, less a loss carryforward.

Other provisions

The principal items comprising other provisions are provisions for customer bonuses in the amount of EUR 574 thousand (previous year: EUR 1,633 thousand) and other staff costs, including for service anniversaries and partial retirement arrangements in the amount of EUR 186 thousand (previous year: EUR 624 thousand).

Trade accounts payable

Trade accounts payable to third parties in the amount of EUR 571 thousand are due within a period of one year (previous year: EUR 296 thousand).

Liabilities to corporate affiliates

Liabilities to corporate affiliates amounted to EUR 38,852 thousand (previous year: EUR 29,700 thousand), of which EUR 34,228 thousand represented trade payables (previous year: EUR 27,402 thousand), EUR 3,222 thousand represented other liabilities (previous year: EUR 759 thousand) and EUR 1,402 thousand represented loan liabilities (previous year EUR 1,539 thousand). Liabilities in the amount of EUR 4,624 thousand represent other liabilities to shareholders (previous year: EUR 2,298 thousand).

Liabilities in the amount of EUR 37,450 thousand are due within a period of one year (previous year: EUR 28,162 thousand); EUR 0 thousand in liabilities are due between one and five years (previous year: EUR 0 thousand). Liabilities of EUR

1,402 thousand have a maximum remaining term of more than five years (previous year: EUR 1,538 thousand).

Other liabilities

Other liabilities principally include customers with credit balances and tax liabilities due short-term.

Notes on the profit & loss account

Income and expenses per § 285 No. 31 HGB. The amount of revenue from pass-on management fees charged to the Slovakian company changed by EUR 10,900 thousand, reflecting a change in corporate group pass-on expense accounting in 2022.

Sales revenue

Sales revenue of Secop GmbH includes in particular sales revenue from compressor sales, management fee income from the provision of services to corporate affiliates and licensing income. A breakdown of sales revenues by business area is shown below, stating amounts.

	2022 kEUR	**2021** kEUR
Revenue from sales of goods	116,341	121,530
Sales revenue from allocated management fees	1,071	13,222
Licensing income	5,925	6,850
Total	123,337	141,602

Sales revenues of the Secop Group are predominantly invoiced to the respective end customers via Secop GmbH, while goods are delivered directly from the manufacturing plants. Sales revenues break down by geographic market as follows:

	2022 kEUR	**2021** kEUR
Domestic	10,404	5,358
European Union	69,823	85,403
Rest of world	43,110	50,841
Total	123,337	141,602

Cost of materials

Cost of materials primarily includes goods purchased from the supplying plants and research and development services purchased by corporate affiliates.

Personnel expenses

Personnel expenses include expenses for employees, social benefits and pensions.

Depreciation, amortisation and impairments

Depreciation, amortisation and impairments includes unscheduled amortisation of intangible assets in the amount of EUR 2,369 thousand.

Other operating expenses

Other operating expenses primarily comprise corporate pass-on/allocation items, travel, IT, sales & marketing, license, consulting and insurance expenses.

Total research & development expenses

Research & development expenses for 2022 totalled EUR 14,030 thousand, stemming from multiple development projects. Of this amount, EUR 6,527 thousand was capitalised in the financial year under review.

Net interest income

Net interest income includes interest expenses vis-a-vis corporate affiliates, the parent company and external lenders.

Income taxes

Income taxes primarily represent refunds of domestic tax paid in advance from previous years, paid withholding tax and the recording of income tax receivables from the current year.

IV. Other disclosures

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 derecognised and no sustained commitment is taken into account on the balance sheet.

Other financial obligations, guarantee/warranty liability

Other financial obligations from rental, lease and maintenance contracts for years following total EUR 6,812 thousand (of which EUR 1,570 thousand are due in less than one year).

On 28 July 2020 the parent company of Secop Group Holding GmbH floated a variable-rate bond issue ("senior secured floating rate bonds") in an initial volume of EUR 50 million maturing on 29 January 2024 on the over-the-counter market in Frankfurt, Germany and on the Stockholm Stock Exchange in Sweden. As of 31 December 2022, these bond liabilities totalled a nominal EUR 37.8 million (excluding interest). Secop GmbH has assumed a guarantor commitment for this contract. In view of the parent company's financial situation, no claims are expected.

In addition to the IP rights owned by Secop GmbH (capitalised development costs for intangible assets), shares in corporate affiliates and trade receivables not subject to factoring have been pledged as collateral.
The probability of a claim being asserted against the guarantor or the provided collateral being claimed is considered to be low at this time because Secop Group Holding GmbH has to date fulfilled its contractual obligations for the bond issue and there are no indications and no information has been provided by management that these contractual obligations may not be met.

Consolidation status

Secop Group Holding GmbH, Flensburg, prepares consolidated financial statements for its largest and smallest corporate groups in Germany, to which Secop GmbH and its subsidiaries belong. Secop GmbH is therefore released from obligation to prepare consolidated financial statements and a group management report on its own. Disclosures on accounting/measurement and consolidation methods deviating from German law is not necessarily required, as the exempting consolidated financial statements of the parent company are prepared in accordance with IAS/IFRS as adopted by the EU.

Governance bodies and related expenses

The disclosures per § 285 No. 9 a HGB have been omitted in line with § 286 (4) HGB.

Executive management

Dr. Jan Ehlers, Timmendorfer Strand, Managing Director
Mr. Michael Engelen, Buxtehude, Managing Director (since 1 July 2022)

Average number of employees

	2022	2021
Number of employees	35	35

Auditor’s fee

The total auditor fee expense recorded for auditing services was EUR 26 thousand (previous year: EUR 26 thousand)

Proposal for the appropriation of profits

The net accounting loss recorded for the year of EUR 11,113,891.45 is carried forward to the financial year following.

Significant post-reporting date events/transactions

No business events/transactions occurred after the statement date other than as reported.

Flensburg, 8 May 2023

Dr. Jan Ehlers Managing Director	Michael Engelen Managing Director

Secop GmbH, Flensburg

Notes to the Financial Statements for the period 1 January - 31 December 2022
- Annex to the Notes -

Change in non-current assets

	Acquisition/production cost					Cumulative depreciation/amortisation					Carrying values	
	01/01/2022	Additions	Disposals	Reclassifications	1 December 202	01/01/2022	Additions	Disposals	Reclassifications	1 December 202	1 December 202	31/12/2021
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR		EUR	EUR	EUR
I. Intangible assets												
1. Concessions, industrial property, similar rights and titles and licenses to such assets	20.630.987,34	1,69	0,00	0,00	20.630.989,03	15.702.470,12	3.371.745,03	0,00	0,00	19.074.215,15	1.556.773,88	4.928.517,22
2. Advance payments	19.220.826,07	6.527.015,97	0,00	0,00	25.747.842,04	0,00	0,00	0,00	0,00	0,00	25.747.842,04	19.220.826,07
	39.851.813,41	6.527.017,66	0,00	0,00	46.378.831,07	15.702.470,12	3.371.745,03	0,00	0,00	19.074.215,15	27.304.615,92	24.149.343,29
II. Property, plant and equipment												
1. Technical plant and machinery	1.397.258,35	33.580,09	0,00	0,00	1.430.838,44	1.071.854,46	43.542,09	0,00	0,00	1.115.396,55	315.441,89	325.403,89
2. Other plant assets, operational and business equipment	261.943,16	76.170,32	35.587,23	0,00	302.526,25	176.870,16	59.871,32	35.587,23	0,00	201.154,25	101.372,00	85.073,00
3. Advance payments and assets under construction	35.350,00	-13.243,44	0,00	0,00	22.106,56	0,00	0,00	0,00	0,00	0,00	22.106,56	35.350,00
	1.694.551,51	96.506,97	35.587,23	0,00	1.755.471,25	1.248.724,62	103.413,41	35.587,23	0,00	1.316.550,80	438.920,45	445.826,89
III. Financial assets												
Shares in corporate affiliates	9.010.750,00	0,00	0,00	0,00	9.010.750,00	0,00	0,00	0,00	0,00	0,00	9.010.750,00	9.010.750,00
	50.557.114,92	6.623.524,63	35.587,23	0,00	57.145.052,32	16.951.194,74	3.475.158,44	35.587,23	0,00	20.390.765,95	36.754.286,37	33.605.920,18

Secop GmbH, Flensburg

Management Report for the 2022 Financial Year

1. Company profile

1.1. Business model

Secop GmbH (DES) with registered office in Flensburg, Germany is a wholly owned subsidiary of Secop Group Holding GmbH (SGH), which prepares the consolidated financial statements for the Secop Group, its largest and smallest sets of consolidated companies in Germany.

DES is the direct 100% shareholder of Secop Austria GmbH (Secop Austria), Gleisdorf, Austria and of Secop Italy s.r.l. Milan, Italy.

Secop Austria and Secop s.r.o., Zlaté Moravce, Slovakia (Secop Slovakia) are responsible for research and development along with Motor Competence Holding GmbH (Flensburg).

The business activities of DES primarily concern sales of compressors purchased from Secop Group plants in Slovakia and China.

The Secop Group develops, produces and distributes hermetic compressors for cooling applications worldwide. This involves the use of raw and input materials such as steel, copper, aluminium as well as electronic components which play an important role in compressor control systems. These 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 global sales of the goods. The Application Engineering unit provides customer service and technical sales activities with engineering expertise for Secop Group customers.

The compressors business is organised into the segments of stationary cooling and mobile cooling.

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 its 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. In its Medical Cooling segment, comprising 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.

As part of its operating activities the Company also provides headquarters services provided for the Secop Group. Management fee revenue is generated from these services. DES also owns patents, utility models, trademarks and other registered industrial property rights as well as know-how in compressor manufacturing and sales. The Company generates licensing income on these from corporate affiliates and third parties.

1.2. Research & 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 and maintain temperatures as low as -80°C. The first finished prototype was 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 area. The goal is to reduce power consumption even further.

The new BDnano mobile cooling platform will be launched on the market in 2023, whose performance in terms of transport stability, dynamic noise development, cooling and energy output is unmatched anywhere in the world. 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.

Secop GmbH invested EUR 14.0 million in R&D in the financial year under review (previous year: EUR 11.2 million), 47% of which was capitalised (previous year: 54%).

2. Business conditions

2.1. The economy and the industry

In 2022 the German economy recorded a 1.9% rise in gross domestic product despite having to deal with the tail-end of the Covid-19 pandemic, involving disrupted supply chains, and with the Ukraine conflict, which has unleashed concerns over energy and raw material prices. The economic recovery continues to be predominantly resulting from catch-up effects from the Covid-19 pandemic, as supply chains further stabilise, and to recovering consumer spending.[1]

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

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 sharply rising producer and energy price inflation, and due to falling international orders.[2]

Employment has been improving despite rising inflation and energy prices, as the shortage of skilled labour is increasingly becoming a growth problem across nearly all sectors. Employment rose sharply in November 2022, and unemployment declined again in December 2022, both on a season-adjusted basis.[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 over the course of the year, and by 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. The uncertainty created by high inflation and the Ukraine-Russia conflict have slowed global economic growth. Individual countries will be seeing negative economic growth.[5] China, as the starting point and initial epicentre of the Covid-19 pandemic, reported that its huge economy grew, but at a lower rate than in previous years due to the country's strict zero-Covid strategy combined with a real estate crisis. The growth forecast for the Chinese economy is thus at 3.5% for 2022, with expectations of moderate 4.4% growth in 2023,[6] substantially lower than last year's 8.4% reported growth for China.[7]

The overall compressor market (sales volume of approximately 60 million compressors) is growing, with revenue expected to increase between 5.5 and 6.7% p.a. (2021-2027/2030).[8] The reasons for this are expanding refrigeration applications for (food, trade, transport, pharmaceuticals, etc.) and increased demand associated with rising global temperatures combined with population growth. From today's perspective it is apparent that the Covid-19 pandemic did not cause a significant drop in overall demand, which increased instead. However, inflation and uncertainties brought about by the Ukraine-Russia conflict have impacted the Secop Group. High energy and producer prices have had a negative effect on demand in particular. In addition to their classic areas of application, Secop products are essential in healthcare for maintaining cold chains and supplying the population with refrigerated food and health products (such as vaccines).

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

[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 Dezember 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.

2.2. Business development and situation

The market slowed for the Stationary Cooling segment, particularly in China and Europe, as much investment in food retail has already been made. Demand for food services, on the other hand, was boosted by positive trends in America and Europe. In Europe and the Middle East, demand fell due to price increases implemented in the first half of 2022.

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

The Food Retail segment saw declining demand in Europe and China due to decreased investment in the food and beverage markets, while in America growth prospected remained good, overall. Demand was strongest in the America region in the year under review, with a positive trend seen across all segments. In contrast, demand in Europe was constantly below forecast, suffering from negative effects from the Ukraine crisis and rising inflation which markedly impacted production cost. China reported a significant fall in domestic demand due to the country's zero-Covid strategy, but exports also suffered from the Covid lockdowns imposed. Demand in South-East Asia remained low while demand in the Middle East and Africa fell due to price pressure, import restrictions and currency restrictions.

The Retail segment reported solid demand for spare parts, and Secop is supporting various OEM projects to develop environmentally friendly, energy-efficient solutions by providing its range of premium products.

In the Mobile Cooling segment Secop saw satisfactory demand overall. Orders remained at a good level for the Automotive segment despite fluctuations in the automotive market thanks to rising demand for vehicles with on-board refrigeration. 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, while the Mobile Cooling segment suffered from supply chain problems affecting the availability of electronic components – a situation that improved in the second half of the year.

The Medical Cooling segment continued to see modest yet stable demand driven by worldwide medical projects for the vaccine storage in the supply chain and for pharmaceutical laboratories. Secop again recorded growth in its Mobile Medical Applications segment, acquiring a number of new projects during the year for the development of solutions for the medical cold chain, and for launch of environmentally-friendly, efficient solutions with a new generation of products developed by Secop for the medical/healthcare market and vaccine distribution.

Gross profit margin for 2022 narrowed slightly versus 2021 due to rising raw materials and energy prices, while the gross margin on sales revenue less cost of sales came in at 20%, a similar level to 2021.

The key planning and monitoring parameters for the Company's internal management, which influence the key financial performance indicators, are earnings from compressor sales and EBITDA (earnings before interest (net financial income), taxes, and depreciation/amortisation. The change in these KPIs in 2022 versus the previous year is shown below.

	2022 k€	2021 k€	Change k€
Sales revenue	123,337	141,602	-18,265
- of which from compressor sales	116,821	122,984	-6,163
EBITDA	-6,733	10,439	-17,172

Comprehensive income for 2022 was primarily negatively affected by falling sales and uncertainty connected with the Ukraine-Russia conflict, as well as high inflation. The metric EBITDA, key for management purposes, came in at EUR -6.7 million, down year-on-year from EUR 17.1 million due to declining sales volume. This decline was due to one-off effects connected mainly with a transfer pricing adjustment within the Secop Group and with lower revenue in 2022. Management fee revenue decreased in the financial year under review, partly due to a EUR 6.1 million charge stemming from a contractual obligation affecting this allocated pass-on fee.

Of the decline in total sales revenue, an amount of EUR 6.1 million was attributable to compressor sales. This decrease chiefly reflected significantly falling revenue in the Stationary Cooling business. This was offset by significantly rising revenue for Mobile Cooling and a substantial revenue rise for Medical Cooling as well. The revenue target of EUR 130.9 million for compressor sales in financial year 2022 (per the 2021 management report) clearly was not attained.

The Company was unable to meet its EBITDA estimate, set last year, of EUR 8.4 million for financial year 2022, which came in at EUR -6.7 million. Failure to meet this target was principally due to cost of materials and energy prices as well as general inflation throughout 2022 – factors which eroded earnings. In summary, the revenue and earnings targets for 2022 were not achievable due to a range of external factors.

Significant challenges were faced in 2022, including particularly the persisting Covid pandemic and the Ukraine-Russia conflict which negatively impacted raw material, energy and transport prices. Price increases could not immediately be passed on to customers, undermining earnings, and affected sales volume in some cases when they were. In view of these circumstances management remains satisfied with the Company's business performance.

2.3. Explanations regarding earnings, assets and financial position

Earnings

The table below provides an overview of the primary changes in earnings versus the previous year.

	2022	**2021**	**Change**
	k€	**k€**	**k€**
Sales revenue	**123,337**	**141,602**	**-18,265**
Other own work capitalised	6,527	3,978	2,549
Other operating income	1,907	2,903	-996
Cost of materials	-120,277	-120,935	657
Personnel expenses	-3,678	-4,217	539
Other operating expenses	-14,550	-12,892	-1,658
EBITDA	**-6,733**	**10,440**	**-17,173**
D&A	-3,475	-3,739	264
EBIT	**-10,208**	**6,701**	**-16,909**
Net interest income	-95	-373	278
Earnings before taxes (EBT)	**-10,303**	**6,329**	**-16,631**
Income tax	-810	-948	138
Other taxes	-2	-40	38
Jahresfehlbetrag	**-11,114**	**5,341**	**-16,455**

With reference to the explanations regarding sales revenue provided in the section 2.2"Business results", the year-on-year decline in net profit for the year by EUR 16.5 million resulted from the following developments:

The following points are of note in particular:

- Other operating income declined by EUR 1 million year-on-year. This reflects one-off income of EUR 1.1 million in 2021 from the sale of Motor Competence Center Holding GmbH to the Group parent company. Income from the reversal of provisions and exchange rate gains are also included.
- Cost of materials was unchanged versus the previous financial year, consisting principally of EUR 110.9 million in expenses from purchased goods from the supplying plants (previous year: EUR 114.0 million), 2.7% lower year-on-year.
- Personnel costs declined by EUR 0.5 million in 2022. The average number of employees was unchanged year-on-year at 35. The difference reflects the reversal of accrued employee bonuses for 2022, as the Group missed its EBITDA targets for the year.
- Other operating expenses rose by EUR 1.6 million to EUR 14.5 million, due particularly to higher allocated management fees. Other operating expenses primarily comprise allocated corporate pass-on items, travel, IT, sales & marketing, license, consulting and insurance expenses.
- D&A declined by EUR 0.2 million in financial year 2022, including an impairment of EUR 2.4 million recorded for the old household technologies.
- Net interest income increased year-on-year by EUR 0.3 million in 2022 to EUR 0.1 million, due mainly to a correction of interest on a tax refund due pursuant to a completed tax audit.
- Income taxes consist primarily of withholding tax paid (EUR 8 million) and corporation and trade tax provisions (EUR 0.05 million) allocated in view of a tax audit.

Assets

The table below provides an overview of the significant changes in assets versus the previous year.

	31/12/2022	31/12/2021	Change
	k€	k€	k€
Non-current assets	37,595	34,606	2,989
Current assets	32,851	38,854	-6,002
Total assets	**70,446**	**73,460**	**-3,014**

Non-current assets consist of EUR 36.7 million in fixed assets (previous year: EUR 33.6 million) and a rental security deposit of EUR 0.8 million. Fixed assets consist of internally produced or self-created intangible assets and financial assets.

The EUR 3 million increase in non-current assets reflects capitalised R&D expenses of EUR 6.7 million and impairments taken on the old Household technologies in the amount of EUR 2.4 million.

Current assets decreased by EUR 6.0 million in 2022 versus the previous year. Trade accounts receivable decreased by EUR 8.5 million while cash and cash equivalents rose by EUR 2.7 million.

The decline in trade accounts receivable primarily reflected generally lower revenue due to increased commodity and energy prices. Receivables from the factoring provider totalled EUR 2.4 million at 31 December 2022, reported under ‘other assets’.

Receivables from corporate affiliates for 2022 were unchanged versus 2021. Cash and cash equivalents significantly increased as a result of more effective dunning.

Capital structure

The table below provides an overview of the primary changes in the capital structure versus the previous year.

	31/12/2022	31/12/2021	Change
	k€	k€	k€
Equity	24,442	35,556	-11,114
Provisions	5,379	7,132	-1,753
Non-current liabilities	0	0	0
Current liabilities	40,625	30,772	9,853
Total equity + liabilities	**70,446**	**73,460**	**-3,014**

Current liabilities increased by EUR 9.8 million or 32% year-on-year to EUR 40.6 million. This increase primarily reflects higher liabilities to corporate affiliates, which rose by EUR 9.2 million due to a change in group transfer pricing.

The equity ratio fell from 48.4% to 34.7%, due chiefly to the net loss recorded for the year.

Financial position

Cash flow from operating activities in the 2022 financial year improved by EUR 2.7 million year-on-year to EUR 10.3 million. Increased cash flow from operating activities primarily reflected lower trade receivables due to declining revenue and improved receivables management.

Cash flow from investing activities declined by EUR 2.0 million due to a number of projects being completed in the financial year under review (KLF, Bdnano).

Cash flow from financing activities improved by approximately EUR 0.3 million in financial year 2022.

On a net basis cash and cash equivalents declined by EUR 2.7 million between 31 December 2021 and 31 December 2022, as the Group held EUR 5.0 million as at the statement date.

Secop GmbH was able to meet its payment obligations at all times in 2022. Please refer to the explanations in the Risk Report regarding the guarantee assumed for the bond issue floated by SGH during the financial year under review.

	2022	2021
	k€	k€

Operating activities		
EBIT	*-10,208*	*6,701*
+ D&A / - reversals on property, plant and equipment, intangible assets and rights of use	3,475	3,739
+ Decrease /- Increase in provisions	1,753	-2,163
+ Decrease /- Increase in trade receivables and current assets	8,494	-8,200
- Decrease /+ Increase in trade payables, other liabilities and current provisions	274	1,918
± Change in other accounting items	5,722	4,643
Income tax paid	810	948
Income tax refunded	0	0
Cash flow from operating activities	***10,320***	**7,586**
Investment activities		
- Investments in property, plant and equipment	-74	-499
- Investments in intangible assets	-7,782	-9,815
+ Income from disposals of property, plant and equipment, intangible assets and rights of use	13	437
Cash flow from investment activities	***-7,842***	**-9,878**
Financing activities		
Interest and fees paid	-96	-373
Interest received	1	0
+ Increase /- decrease in liabilities to banks	0	0
Cash flow from financing activities	***-95***	**-373**
Increase/decrease in cash and cash equivalents	**2,383**	**-2,664**
Cash and cash equivalents on 1 January	**2,300**	**4,666**
Increase/decrease in cash and cash equivalents	2,383	-2,664
Foreign currency translation differences	319	298
Cash and cash equivalents on 31 December	**5,003**	**2,300**

3. Post-reporting date disclosures

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 instability factors seen in 2022. However, in view of persistently high inflation, the Ukraine-Russia conflict and the fragile economic stability of Europe, economic forecasts remain subject to great uncertainty.

In China 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 inflation and economic/political stability could affect demand. Following a weaker start to 2023, the introduction of new regulations banning certain refrigerants point to rising demand, particularly in America. The ban will stimulate new projects for green refrigerants. Other regions are expected to exhibit more stable and constant demand in 2023, albeit with certain price pressure.

The expectation is that materials and energy costs will fall before stabilising, positively impacting profitability, while delivery bottlenecks for electronics are also expected to ease so projected demand can be met.

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

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

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.

The Secop Group is forecasting growth in revenue and EBITDA versus 2022, although this will depend heavily on the expected economic and political stability in Europe and worldwide, as well as on expected falling prices and delivery reliability in the procurement markets. Secop anticipates a significant rise in revenue from the 2022 level of EUR 123.3 million.

5. Opportunities

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 refocusing is to enable a more concentrated use of existing resources for investment purposes and for research & development in the Company's three profitable business segments, affording greater opportunity for growth.

Focused on innovation, Secop has an ambitious roadmap for introducing new products to support business growth in the different segments and meeting the needs of customers by providing 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 has developed a new product range to exploit opportunities arising from market trends toward the introduction of environmentally-friendly refrigerants that reduce greenhouse gas emissions, simultaneously reducing energy consumption by providing highly-efficient cooling 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 on a new, automated production line at our plant in Slovakia. Secop has developed a new electronic controller to conform with new regulations on energy-optimised "cooling solutions" and new standards for energy labels. This new modular solution affords significantly improved 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 market demand for green compressors in food retail and restaurants within 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 also has a range of opportunities on the market that aim to support the development of cooling appliances underpinning 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 other areas.

To support this development, Secop has introduced the new BDnano platform, which offers much greater power and efficiency together with smaller size, optimising space. The new platform is specifically optimised for electric vehicle applications and allows generating added value while supporting the design of new, more powerful solutions. The new platform will be manufactured on a new production line at the production site in China, and includes models suitable for portable solutions, recreational vehicles, cars and lorries.

The **Medical Cooling** segment was established to make superior options available to customers in the medical cold chain, to develop refrigerators with environmentally-friendly refrigerants and to maximise system efficiency through cutting-edge system performance controls. Secop has had a range of relevant products approved which were developed and tested specifically for medical applications to support storage and transport in the medical cold chain. Secop has thus launched a joint initiative together with market leaders in the segment to develop new and innovative solutions for the demand for medical cold chains in the wake of the Covid-19 crisis. In particular, Secop has 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 vials 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** enables the Company to quickly respond to new trends in the market for cooling solutions by designing competitive products and solutions based on the R&D results. The existing set-up with permanent R&D sites allows the Group to focus on all areas relevant to compressors. The Company's dedicated locations are responsible for the various component assemblies: electric motors, compressor units, the related electronics and applications. This enables faster and more sustainable compressor development. At the Secop Group, R&D activities are supported by a CTO and a Programme Office, which ensure 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. Exchanging know-how between sites enables the development of measures for subsequent sharing for the benefit of the larger Group. The focused production set-up may open up further opportunities in term of quality, energy savings, process optimisations or in other areas.

The current **procurement** set-up of the Secop Group with centrally managed purchasing and the two production sites is ideal for leveraging the advantages of Europe and Asia and capturing economies of scale and synergies. This also makes it possible to identify new suppliers who offer more efficient and effective production, or quality advantages or other benefits.

In summary the Company's opportunity situation is considered to be good.

6. Risk Report

Risk management system

The Secop risk management system supports the early identification and minimisation of potential risks that threaten target attainment or the company itself as a going concern. The system enables risks to be quickly identified and assessed and adequate countermeasures to be taken.

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

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

Cash management in particular is extremely important within the Secop Group. Cash flows within the Secop Group are optimised based on weekly, rolling liquidity planning and a quarterly Company forecast in combination with stringent controlling. This ensures that the Group has adequate liquidity at all times.

The occurrence of one or more of the risk events outlined below, individually or together, could significantly impair the Secop Group's business activities and have material adverse effects on the assets, financial position and earnings of the Secop Group. The list of risks below may prove to be non-exhaustive in retrospect. Other risks, factors and uncertainties may exist of which the Secop Group is currently unaware or considers immaterial.

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 deterioration in the situation may have greater indirect consequences for the Secop Group, such as through further rises in raw materials or energy prices, a general weakening of demand or similar developments. The Company views this risk as moderate.

- Technological competition between the USA and China in the area of semiconductors could pose a risk for the procurement of semiconductors. The increasing isolation of China with regard to semiconductor innovation could lead to a shortage of available semiconductors and to higher prices for the semiconductors that are available. The Company is not yet reliant on these high-tech semiconductors, and thus considers this risk to be low.

- An unexpected, widespread recurrence of new, more aggressive and resistant Covid-19 mutations and resulting government lockdown measures holds a continuing risk of unforeseen declines in revenue. Possible delivery bottlenecks (e.g. of electronic components or "chips") due to the temporary closure of supplier production facilities may affect production and thus sales of Secop compressors. Investment projects and new product launches at major customers could be suspended or delayed, there being a degree of uncertainty regarding future economic developments. Secop management views 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 customer 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 sharp competitive pressure and in some cases highly variable raw materials costs, which could create a situation in which Secop is unable to sell its products at prices above production cost. 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 these plants or a lack of availability of consumables could influence the production of compressors. The Secop Group therefore carries out preventive maintenance of 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 customer operation. The Secop Group thus constantly monitors product quality 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 under 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 raw materials, e.g. copper, steel and aluminium. In addition, some commodities are exclusively traded in foreign currencies, so exchange rates can affect the cost of raw materials. 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 identifying multiple qualified sources whenever possible. Overall, Secop management views this risk to be low.

Personnel risk

- Employees are essential to the success of the Secop Group. The loss of employees, such as in the R&D department, could lead to a insufficient capacity for innovation that could affect 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 thus provides training and other measures aimed at minimising personnel risk. Secop management views 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 important for Secop's future growth, and are thus essential for business success going forward. However, Secop cannot rule out the possibility that past or future research and development costs will not (completely) be able to be recovered through subsequent sales of the developed products, e.g. because a product ultimately cannot be successfully launched on the market. To counter this risk, market analyses and studies are carried out in parallel to the research and development process in order to avoid wasted investment. Secop management views this risk as moderate.

- The bond contract concluded by Secop Group Holding GmbH in the financial year under review obliges SGH to adhere to financial covenants and other contractual obligations. Secop GmbH is a guarantor and has posted collateral. Given a breach of financial covenants or other contractual obligations which cannot be remedied, or alternative financing sources found in the short term, the Secop Group and thus Secop GmbH would be jeopardised as a going concern. The probability of a claim being asserted against the guarantor or the provided collateral being claimed is considered to be low at this time because SGH has to date fulfilled its contractual obligations for the bond issue and there are no indications and no information has been provided by management that these contractual obligations may not be met.

- 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 the 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, 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. 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 alternatives or certain structural options, for example, differently than the Company does, ultimately resulting in higher tax expense. The Company counters this risk by consulting external specialists in tax matters. Secop management considers this risk as low.

- Legal risk 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.

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 risk types: interest rate, foreign currency and other price risk, including raw materials price 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 interest rate risk by agreeing fixed-rate loan conditions (where possible) and arranging early repayment options, especially for variable-rate, medium-term and long-term loans. Interest rate swaps and comparable instruments are reviewed as appropriate. The conditions of the variable-rate bond issue also stipulate that special repayments are possible within a defined framework, as well as the targeted purchase of bond coupons on the market. Conversely, the Secop Group can also sell bond tranches back to the market. Secop management views this risk as moderate.

Currency risk

Currency risk is the risk of the fair value of assets and liabilities or of future cash flows fluctuating due to movements in foreign exchange rates. The Secop Group is exposed to risk from movements in foreign exchange rates affecting operating activities (when revenue and/or expense is denominated in foreign currency) and in its net investment in foreign subsidiaries, especially in USD and RMB. Through targeted group purchasing management Secop is striving to close out open currency positions to the extent possible to 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 and projections. 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.

Default risk

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 actions taken as necessary, ranging from adjusting payment terms to obtaining a court judgement to collect the outstanding receivables. Secop management views default risk on customer receivables as moderate.

The Secop Group counters the risk of bank failure by using a diversified portfolio of banks, selecting banks according to what they offer, the benefits and their reliability vis-a-vis the Secop Group, and according to their respective bank rating. In addition, the amount of foreign and domestic bank balances is regularly monitored to limit the amount of possible defaults, as appropriate. Secop management views 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 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 this risk through regular reporting and preventive reviews of contractual financial covenants and other mandatory contractual obligations.

The Secop Group therefore monitors liquidity risk through active liquidity management, involving the following options:

- Active management of working capital and future investment
- Flexible use of a revolving credit facility in Slovakia,
- Use and expansion of factoring lines as necessary
- Use of supply chain financing lines in China and
- Targeted purchasing and sale of bonds from the bond issue.

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

Flensburg, 8 May 2023

Dr. Jan Ehlers Managing Director	Michael Engelen Managing Director

INDEPENDENT AUDITOR'S CERTIFIED OPINION

Issued to Secop GmbH, Flensburg

AUDIT OPINIONS

We have audited the annual financial statements of Secop GmbH, Flensburg – consisting of balance sheet dated 31 December 2022, profit & loss account for the financial year 1 January 2022 to 31 December 2022 and notes to the financial statements – including the presentation of accounting and measurement methods.

We additionally audited the management report of Secop GmbH for the financial year 1 January 2022 to 31 December 2022.

In our opinion, which is based on the findings of the audit we conducted,

— the attached annual financial statements conform with German commercial code accounting rules applicable for stock corporations in all material respects and convey a true and fair view, in accordance with German generally accepted accounting principles, of the company's assets and financial position as at December 31, 2022 and its earnings for the financial year 1 January 2022 to 31 December 2022; and
— the attached management report provides an overall true and fair view of the company's business situation. This management report is consistent with the financial statements in all material respects, conforms with German legal requirements and accurately presents the opportunities and risks relevant for the company's business going forward.

In accordance with § 322 (3) 1 of German Commercial Code (HGB), we declare that no exceptions were noted regarding the financial statements or management report on the basis of the audit we conducted.

BASIS FOR THE AUDIT OPINIONS

We audited the annual financial statements and management report in accordance with § 317 HGB and with the principles of German financial statement auditing issued by the German Institute of Independent Auditors (IDW). Our responsibilities under these regulations and standards are further specified in the section of our certified opinion report entitled "AUDITOR RESPONSIBILITIES IN AUDITING FINANCIAL STATEMENTS AND MANAGEMENT REPORTS". We are independent of the company, in conformance with German commercial code and with standards for the accounting profession, and have fulfilled the other obligations incumbent upon members of the profession in Germany, in accordance with the requirements established thereunder.

We believe that the accounting documentation we obtained is sufficient and suitable as a basis for our audit opinions on the financial statements and group management report.

RESPONSIBILITY OF THE COMPANY'S STATUTORY REPRESENTATIVES FOR THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT

The company's statutory representatives are responsible for the preparation of the annual financial statements, which comply in all material respects with the German commercial code provisions applicable to stock corporations, and for ensuring that the annual financial statements afford a true and fair view of the assets, financial position and earnings of the company in accordance with German generally accepted accounting principles. In addition, the executive directors as statutory company representatives are responsible for such internal controls as they have determined necessary to enable the preparation of financial statements, in line with German GAAP, that are free from material misstatement, whether due to fraud (e.g. manipulation of accounts and financial losses) or to error.

In preparing the annual financial statements, the statutory representatives are responsible for assessing the company's prospects for continuing business as a going concern. They furthermore bear responsibility for providing disclosures regarding pertinent going concern-related matters. Additionally they are responsible for conducting accounting on the basis of the going-concern principle of accounting, barring any de facto or de jure circumstances to the contrary.

The statutory company representatives are responsible for preparing a management report which affords a true and fair view of the company’s business situation, is consistent with the financial statements in all material respects, meets German legal requirements and accurately portrays business opportunities and risks for the company’s business going forward. In addition, the company’s statutory representatives are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a 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 management report.

AUDITOR’S RESPONSIBILITIES IN AUDITING THE FINANCIAL STATEMENTS AND MANAGEMENT REPORT

Our objectives are to gain reasonable assurance that the financial statements as a whole contain no material misstatements due to fraud or error, and that the management report affords a true and fair view of the Group’s business situation, is in all material respects consistent with the financial statements, reflects the audit findings, conforms with German legal requirements and accurately reflects the company's business opportunities and risks going forward; also to issue a certified auditor’s opinion on the financial statements and management report based on our audit findings.

Reasonable assurance means a high degree of certainty—not a guarantee—that an audit conducted in accordance with § 317 of German Commercial Code (HGB) which conforms with the German generally accepted standards for financial statement auditing outlined by the Institute of Public Auditors in Germany (IDW) will in all cases suffice to identify material misstatements. A misstatement may be due to fraud or error, and such are considered material if they could reasonably be expected to influence business decisions made on the basis of these financial statements and the management report by the individuals or groups who read these documents.

In conducting audits we exercise due discretion and maintain fundamental objectivity. We furthermore:

— identify and assess the risks of material misstatement of the financial statements and of the 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 failing to identify a material misstatement due to fraud is greater than such risk due to error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the overriding of internal control.
— study the internal control system relevant for auditing of the financial statements and relevant precautions and measures for auditing of the management report in order to plan auditing activities which are appropriate for the given circumstances — not for the purpose of issuing an auditor’s opinion on the effectiveness of these company systems.
— assess the appropriateness of the accounting principles applied by the statutory company representatives and the reasonableness of estimated values and related statements made by the statutory company representatives.
— draw conclusions regarding the appropriateness of the going-concern accounting principles applied by the statutory company representatives and whether on the basis of the audit documentation obtained there is material uncertainty regarding events or circumstances which could create significant doubt as to the company's prospects as a going concern. Should we conclude that there is such material uncertainty, we are required to point out the statements or information/data concerned in the financial statements and management report in the auditor's opinion or revise the respective audit opinion if the statements or information/data concerned are inadequate. Our conclusions are based on the audit documentation obtained up to the date of our auditor’s report. However, future events or circumstances may render the company unable to continue business as a going concern.
— evaluate the presentation, structure and content of the financial statements, including the notes, and whether the financial statements present the underlying transactions and events in a manner so as to afford a true and fair view of the assets, financial position and earnings of the company in conformity with German GAAP.

— assess the consistency of the management report with the financial statements, their conformity with applicable laws and the accuracy of the view the report affords of the company's business situation.

— conduct auditing measures to assess forward-looking statements made by the statutory company representatives in the management report. In doing so, we evaluate in particular the plausibility of significant assumptions made forming the basis for forward-looking statements made by the statutory company representatives on the basis of sufficient and suitable audit documentation, as well as the propriety of basing such forward-looking statements on those assumptions. We do not issue a separate auditor's opinion on forward-looking statements and the underlying assumptions made. There is a considerable, unavoidable risk that future events may materially differ from forward-looking statements made.

We discuss with the individuals charged with supervision the planned scope and scheduling of the audit and any significant audit findings, including any material deficiencies affecting the internal system of controls identified during our audit.

Lübeck, 22 May 2023

BDO AG
Wirtschaftsprüfungsgesellschaft

Heesch Dr. Wißmann

Wirtschaftsprüfer (German Public Auditor)
Wirtschaftsprüfer (German Public Auditor)