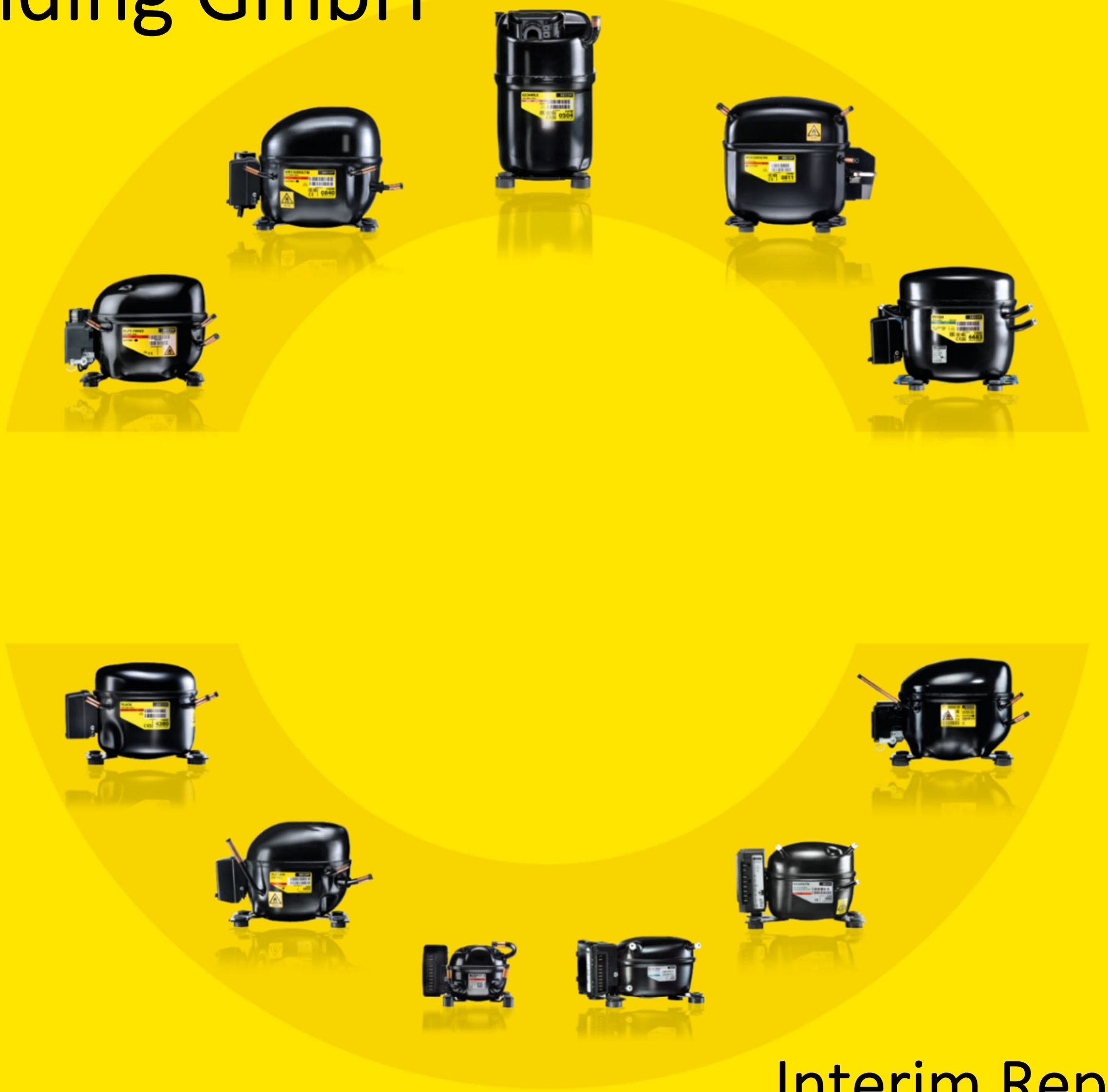
Secop Group Holding GmbH



Interim Report
Q2-2023

MANAGEMENT REPORT

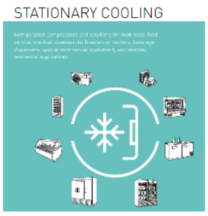
The Secop Group

The Secop Group

Secop is the expert for advanced hermetic compressor technologies and cooling solutions in commercial refrigeration. We develop high performance stationary and mobile cooling solutions for leading international commercial refrigeration manufacturers and are the first choice when it comes to leading hermetic compressors and electronic controls for refrigeration solutions for AC-powered stationary light commercial, DC-powered, and medical cold-chain applications.

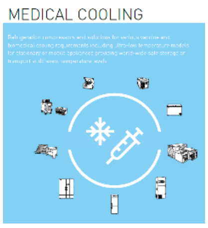
Secop has a long track record of successful projects to adopt energy efficient and green refrigerants that feature innovative solutions for both compressors and control electronics.

Business Segments



Our **Stationary Cooling** business segment (AC-supply compressors for static applications) encompasses compressors for light commercial applications in food retail, food service, merchandisers, and special applications including selected residential applications.
https://www.secop.com/products/stationary-cooling

Our **Mobile Cooling** business segment (battery-driven DC-supply for mobile applications) is the global leader in high-performance hermetic DC compressors for automotive, trucks, recreation vehicles, portable boxes, solar, and other mobile applications.
https://www.secop.com/products/mobile-cooling



Our **Medical Cooling** business segment with its stationary and mobile solutions make us a reliable partner for leading companies supporting the development of a global ULT (ultra-low temperature) supply chain and medical cold-chain optimization with green and efficient solutions.
https://www.secop.com/products/medical-cooling

Message of the CEO

The second quarter was characterized by two key topics: Firstly, we saw a recovering business trend compared to the slowdown in Q1-2023 with an overall profit above Q2-2022, and secondly, we successfully refinanced our existing bond, which matured in January 2024.

Particularly in China, the demand rebounded in Q2 following the low levels seen in Q1, and the volume of orders returned to a “normal” level. However, in Europe, market uncertainties and reduced investment levels continued to impact the demand across various segments, resulting in a negative effect on overall demand. In the Americas, the order level in Q2 showed a slight recovery compared to Q1, although it remained cautious and below the levels of the same period in 2022. In the Middle East and Africa, economic instabilities in some countries continued to influence the overall demand level, resulting in orders below our expectations. Conversely, Southeast Asia experienced a healthy order level in Q2. Overall, the order level in Q2 improved compared to Q1 but remained lower than in 2022. This was offset by our improving margins so that the overall profit exceeded that of the previous year.

In our supply chain, raw materials and energy prices maintained the positive trend observed in Q1, contributing positively to our profitability. The supply for electronics continued to normalize in Q2 and is expected to remain on this level for the rest of the year.

Throughout the second quarter, we provided increased support to automotive OEMs in China, assisting with the integration of the new BD Nano platform into electric cars. These projects hold high priority for Secop and present a promising time-to-market opportunity. Additionally, several key projects for medical cold chain customers reached their final phases of approval. Our Secop team is now gearing up for production, scheduled to commence in the second half of 2023. During Q2, we also introduced additional models of the new KLF platform for commercial applications, supporting the ramp-up of this innovative platform.

Secop's involvement in three commercial refrigeration exhibitions in China during Q2, ChinaRef, China Shop, and Hotelex, resulted in positive feedback and interest from industry leaders for our new range of green and efficient products. In pursuit of strengthening our relationships and supporting the production ramp-up of our new products, Secop's management team visited our plant in China during Q2 to assess the progress of the new BD Nano production line and to engage with key partners to investigate new business opportunities.

Key Highlights Q2-2023

Q2-2023

- **Net Sales** increased materially by almost 9% vs. Q1-2023 but reduced to EUR 65,5m vs. previous year's figure (Q2-2022*: EUR 70,5m) due to a softening demand in different areas and segments following the ongoing political and economic uncertainties globally.
- The **Contribution Margin in %** of Net Sales improved significantly to 23,2% (Q2-2022*: 17,3%), reflecting the effect of our own price increases, an improved product mix and stabilized raw material and freight costs.
- The **Internal Adjusted EBITDA** ended with EUR 5,0m (Q2-2022*: EUR 4,3m) despite the softer sales-development, which was overcompensated by a clearly better margin development.
- Our **Bond EBITDA** development followed the Internal Adjusted EBITDA and finished with EUR 4,9m (Q2-2022*: EUR 3,4m).
- The **EBIT** amounted to EUR 4,2m (Q2-2022*: EUR 1,1m) with a corresponding EBIT-margin of 6,4% (Q2-2022*: 1,6%).
- **Net income** reached EUR 1,1m (Q2-2022*: EUR -1,5m).
- With EUR 5,0m, the strong **Operating Cash-flow** follows the EBITDA-development and exceeds the performance of previous year's period significantly (Q2-2022*: EUR -5,6m).

Q1-2023 - Q2-2023

- **Net Sales** reduced to EUR 125,4m (PY*: EUR 144,1m) due to a softening demand in different areas and segments following the political and economic uncertainties globally and the inventory optimization of customers during Q1-2023.
- The **Contribution Margin in %** of Net Sales improved significantly to 21,8% (PY*: 17,4%), reflecting the effect of our own price increases, an improved product mix and stabilized raw material and freight costs.
- The **Internal Adjusted EBITDA** ended with EUR 8,8m (PY*: EUR 7,9m) despite the softer sales-development, which was overcompensated by a clearly better margin.
- Our **Bond EBITDA** development followed the Internal Adjusted EBITDA and finished with EUR 8,5m (PY*: EUR 6,8m).

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

Business Development Q2-2023

General

During Q2-2023 we saw a promising business recovery from Q1-2023 in different segments and areas. However, despite the better order level several external factors, such as high inflation rates and continuing political and economic uncertainties in several regions, still influenced the business demand during the second quarter, especially in Europe, US and Africa.

Regions

Net Sales in the different regions developed as follows:

EUR M	Q2 2023	Q2 2022*	Q1-Q2 2023	Q1-Q2 2022*	LTM*	2022
Europe	24,0	25,4	49,0	58,5	96,5	106,0
China	27,8	23,4	47,3	46,4	98,5	91,0
Americas	5,0	8,2	10,0	14,7	24,9	29,6
Middle East, Africa & South Asia	8,7	13,5	19,1	24,6	39,1	51,2
Net Sales	65,5	70,5	125,4	144,1	259,0	277,8

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

Europe: During Q2-2023, a cautious investment level in the food and beverage industry was confirmed as a consequence of high inflation rates and uncertainties for business stability in the region. The demand level in Europe was still below the same period of 2022 despite customers completing their stock re-balancing during Q1-2023.

China: The order level showed a fast recovery in Q2-2023 reaching values clearly above same period in 2022 and the previous quarter. Inventory levels of the distribution network were increased to support the perspective of a demand recovery in the domestic market. The light commercial demand in Q2-2023 was strong in China even if the growth rate level in China is below the expectations.

Americas: The lower demand from Q1-2023 continued in Q2-2023 for both stationary and mobile compressors and led to a lower revenue compared to the respective period of 2022. USA food and beverage investment level is still limited and cautious compared to 2022 and for mobile cooling the recreation vehicles market has to face a stock rebalance after the booming demand in 2022.

Middle East, Africa, Southeast Asia: While the demand in Africa and Middle East remained below previous year's period as a consequence of countries facing challenging economic and political situations, Southeast Asia showed a good demand level above the 2022 reference period.

Segments

Within the business segments, Net Sales developed as follows:

EUR M	Q2 2023	Q2 2022*	Q1-Q2 2023	Q1-Q2 2022*	LTM*	2022
Stationary Cooling	45,0	50,8	83,5	104,8	169,3	190,8
Mobil Cooling	18,7	17,9	38,4	36,1	82,4	79,8
Medical Cooling	1,7	1,7	3,4	3,3	7,3	7,2
Net Sales	65,5	70,5	125,4	144,1	259,0	277,8

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

Stationary Cooling: Net Sales decreased due to a lower demand from customers in Europe, US and Southeast Asia, which was partly compensated by a demand increase in China for light commercial applications. The Food Retail segment evidenced a soft demand as in Q1, still behind previous year's demand due to limited investments. Food Service on the other side is on a recovery path for Hotel, Restaurant and Catering demand versus Q1-2023, even if the overall demand is still below the same period of 2022. Regardless of the softer demand for existing products we could see benefits from the introduction and approval of new products launched to the market, which are in the early phase of their ramp-up process.

Mobile Cooling: Like in the previous quarter, the demand in Q2-2023 within the overall mobile cooling segment exceeded the same period of 2022, driven mainly by a positive development in Europe and the contribution of new projects. A strong increase in the demand from the automotive segment could overcompensate a reduction from recreational vehicles in the US and portable boxes in China following the fading extra demand in the wake of the Covid-19 crisis.

Medical Cooling: During Q2-2023, the demand in the medical segment was in line with previous year and previous quarter. Different projects relating to business opportunities in the medical cold chain moved into the final phase of approval and the start of the ramp-up is confirmed for the second half of 2023.

Profit

EUR M	Q2 2023	Q2 2022*	Q1-Q2 2023	Q1-Q2 2022*	LTM*	2022
Internal Adjusted EBITDA	5,0	4,3	8,8	7,9	19,0	18,2
Bond EBITDA	4,9	3,4	8,5	6,8	19,0	18,2
Reported EBITDA	7,0	4,3	11,1	7,8	27,1	23,9
Net Income	1,1	-1,5	-0,1	-3,4	0,7	-2,6

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

In Q2-2023, the **Internal Adjusted EBITDA** was significantly higher than in previous year's period. Main reasons for this improvement were the strong increase of the Contribution Margin in %, climbing from 17,3% in Q2-2022 to 23,2% in Q2-2023 and reflecting the effect of own price increases, an improved product mix and reduced raw material, energy and freight costs. These effects overcompensated the negative effects from lower volumes, following the lower demand in different areas and segments, and slightly higher fixed costs.

The **Bond EBITDA** follows the Internal Adjusted EBITDA, however, the current and previous year's figures were slightly affected by a limitation of adjustments for extraordinary, non-recurring and non-operative items according to the Bond Terms & Conditions.

Reported EBITDA and **Net Income** of Q2-2023 are additionally benefitting from higher unrealized currency gains and lower adjusted expenses compared to Q2-2022.

Supply Chain

Raw material prices and supply for the factory in Slovakia continued to improve and are now starting to show their effects as "old" material purchased at higher prices has been mostly consumed. In the second half of the year, we expect further raw material price improvements due to the generally weaker economy in Europa. The cost of transportation improved further in Q2-2023, reflecting the overall market trends of lower transportation rates and better availabilities. The supply for electronics continued to normalize in Q2-2023 and is expected to remain on that level for the rest of the year.

Investments

In total, Q2-2023 registered investments of EUR 4,2m (Q2-2022: EUR 4,2m), including R&D capitalization of EUR 2,1m (Q2-2022: EUR 2,3m) and IFRS 16 Rights-of-Use capitalization of EUR 0,7m (Q2-2022: EUR 0,3m) for leased equipment at the plant in Slovakia. Main capex were for the development of the new SCE platform, for the ramp up of the new BD Nano platform, where the first samples already went to customers, and for replacement needs.

Trade Working Capital

The Trade Working Capital amounted to EUR 22,4m at the end of Q2-2023, which is a reduction of EUR 5,8m vs. December 2022. While the total Inventory value was reduced by EUR 3,0m, the Trade Receivables increased by EUR 1,0m due to higher business activities compared to Q4-2022. Moreover, Account Payables increased especially in our Chinese plant following the higher business activities.

Cash & Bank	With EUR 9,0m, the Cash & Bank balance of Q2-2023 decreased by EUR 8,2 m vs. the respective figure of December 2022. Main contributor to this reduction was the payment to Nidec Europe B.V. as part of the arbitration settlement in 2022 paid in March 2023. Compared with the previous quarter, the Cash & Bank balance decreased by EUR 1,0m.
Equity	The equity as of 30 June 2023, amounted to EUR 35,3m; its development reflects the Net Income and the Other Comprehensive Income of the period. Including all shareholder loans, which experienced and injection of EUR 3,0m in the course of the arbitration settlement with Nidec and in line with the Bond Terms & Conditions, the equity ratio of the Secop Group amounted to 44%.
Net Debt	The Net Debt position acc. to the Bond Terms & Conditions decreased by EUR 1,9m vs. December 2022, to EUR 36,0m following a lower cash-demand from the Trade Working Capital.
Employees	As of 30 June 2023, Secop employed 1.074 employees based on full-time equivalents (FTE), of which 151 employees in R&D and 826 employees in production facilities. This is a reduction of 71 employees (FTE) compared to the status from December 2022. The reduction was realized in the production area to adjust the capacity of the Slovakian plant to the reduced demand (-70 FTE) within the second quarter. In addition, third-party employees were still reduced. In other functional areas, the number of employees were on the same level.
Nidec Vendor Loan	During Q1-2023, Secop paid EUR 13,0m to Nidec as agreed in an out-of-court settlement of the arbitration proceedings, that also covered the outstanding deferred purchase price. The shareholders of Secop injected EUR 3,0m in cash as new subordinated shareholder loan to partly fund the settlement amount. The remaining amount was financed by existing Cash & Bank balance and short-term credit lines. The latter were fully repaid at the end of Q2-2023.

Outlook

Business Development	The demand recovery of Q2-2023 is expected to sustain during Q3- and Q4-2023 with orders on or slightly below the level of the second half of 2022. For the Mobile Cooling segment, both for Europe and China, an order level on or slightly above 2022 is expected, driven by the automotive segment and the ramp-up of new projects and the launch of new models of the BD Nano platform in Q4-2023. For China, the demand in Stationary Cooling is also expected to be on the level of 2022, while it is expected to remain softer in America, Europe and the Middle East and Africa. This affects both the food retail and food service segment. Despite the projected softer demand for existing products during the rest of the year, we expect an increase of the order level for new platforms, which were recently launched to market and should partially compensate the gap from existing products – a good trend that will be supported by additional models planned for market launch in Q3- and Q4-2023. For Medical Cooling we expect an increase of business development towards the end of the year, since different projects in the pipeline have the start of production planned for Q3- and Q4-2023.
Investments	In order to serve the expected sales volumes of the newly introduced products, a significant part of the planned investments for 2023 is considered for extra production and laboratory equipment, especially in connection with the BD Nano platform. Further amounts will be used for rationalizations, quality improvements and replacements. In addition to these capex, R&D-expenses similar to 2022 are expected to be capitalized in 2023.
Trade Working Capital	Despite the expected volume increases of new products in the second half of 2023, a stable or even lower Trade Working Capital vs. year-end 2022 is expected. This will be supported by strict Inventories and Trade Receivables management, which were introduce in 2022.
Cash & Bank	While the arbitration settlement with Nidec led to a material reduction of the Cash & Bank balance, the placement of the new Bond (see below) will compensate this cash-out. However, due to the ongoing investments in future business the Cash & Bank balance is expected to be lower than on 31 December 2022.
Bonds	In June 2023, Secop announced that it issued a new senior secured bond in order to refinance its existing bond. With the fulfilment of the conditions precedent beginning of July 2023, the company finalized the refinancing and redemption of its existing bond. The new bond has an initial volume of EUR 50m, matures after 3,5 years and carries a floating coupon of 8,4% above 3-months EURIBOR. Unlike with the existing bond, the company does not hold any of its new bond and is currently not planning to acquire such in the foreseeable future.

FINANCIAL STATEMENTS

Consolidated Income Statement

EUR M	Q2 2023	Q2 2022*	Q1-Q2 2023	Q1-Q2 2022*	LTM*	2022
Net Sales	**65,5**	**70,5**	**125,4**	**144,1**	**259,0**	**277,8**
Raw Materials & Consumables	-45,6	-51,6	-88,4	-104,9	-187,5	-204,0
Labor Production	-3,3	-4,0	-6,9	-8,6	-13,5	-15,2
Sales Variable Costs (incl. Royalty Fees)	-1,1	-2,2	-2,5	-4,6	-6,1	-8,1
Other Direct Cost	-0,2	-0,5	-0,3	-0,9	-0,1	-0,7
Contribution Margin	**15,2**	**12,2**	**27,3**	**25,1**	**51,8**	**49,7**
As Percent of Net Sales	*23,2%*	*17,3%*	*21,8%*	*17,4%*	*20,0%*	*17,9%*
Fixed Costs	-9,7	-9,3	-17,8	-18,7	-36,1	-37,1
As Percent of Net Sales	*-14,9%*	*-13,2%*	*-14,2%*	*-13,0%*	*-13,9%*	*-13,3%*
Other Income/Expenses	1,5	1,4	1,6	1,4	11,4	11,3
EBITDA reported	**7,0**	**4,3**	**11,1**	**7,8**	**27,1**	**23,9**
Depreciation & Amortization	-2,9	-3,2	-5,8	-6,3	-15,5	-16,0
EBIT	**4,2**	**1,1**	**5,2**	**1,4**	**11,7**	**7,9**
As Percent of Net Sales	*6,4%*	*1,6%*	*4,2%*	*1,0%*	*4,5%*	*2,8%*
Interest Result	-2,9	-2,3	-5,1	-4,5	-10,0	-9,4
Profit before Tax	**1,2**	**-1,2**	**0,1**	**-3,1**	**1,7**	**-1,6**
Taxes	-0,1	-0,3	-0,2	-0,3	-0,9	-1,0
Net Income	**1,1**	**-1,5**	**-0,1**	**-3,4**	**0,7**	**-2,6**

Adjusted EBITDA Reconciliation

EUR M	Q2 2023	Q2 2022*	Q1-Q2 2023	Q1-Q2 2022*	LTM*	2022
EBITDA reported	**7,0**	**4,3**	**11,1**	**7,8**	**27,1**	**23,9**
Leasing Costs acc.t to IFRS 16	-0,4	-0,4	-0,9	-0,8	-1,7	-1,7
Unrealized Currency Effects	-2,1	-0,8	-2,4	-0,8	-2,3	-0,7
Gains/Losses from Disposed Assets	0,0	0,0	0,0	0,0	0,0	0,0
EBITDA before Adjustment	**4,5**	**3,1**	**7,7**	**6,2**	**23,1**	**21,5**
Adjustments:						
Arbitration/SPA	0,0	0,8	0,0	0,9	-7,3	-6,4
Restructuring Costs	0,5	0,0	0,7	0,0	2,2	1,5
Consulting Fees	0,1	0,2	0,4	0,6	1,1	1,3
Others	0,0	0,1	0,0	0,3	-0,1	0,2
Internal Adjusted EBITDA	**5,0**	**4,3**	**8,8**	**7,9**	**19,0**	**18,2**
Adjustment Limitation acc. to Bond T&C	-0,1	-0,9	-0,3	-1,1	0,0	0,0
Bond EBITDA	**4,9**	**3,4**	**8,5**	**6,8**	**19,0**	**18,2**

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

Consolidated Balance Sheet

ASSETS

EUR M	Q2 2023	Q4 2022	Q2 2022*
Intangible Assets	63,0	63,0	63,5
Tangible Assets	91,1	91,1	90,2
Total Fixed Assets	154,0	154,1	153,7
Deferred Tax Assets	0,3	0,3	1,2
Total non-current Assets	154,4	154,4	154,9
Inventories	33,7	36,7	54,7
Trade Receivables	40,3	39,3	48,3
Current Financial Assets	6,6	4,3	4,3
Cash & Bank	9,0	17,2	12,0
Current non-financial Assets	7,0	6,6	10,3
Total current Assets	96,6	104,0	129,6
Total Assets	251,0	258,5	284,5

EQUITY & LIABILITIES

EUR M	Q2 2023	Q4 2022	Q2 2022*
Equity	35,3	38,0	37,4
Non-current Provisions	2,8	2,8	4,1
Other Provisions	2,0	1,9	2,7
Non-current provisions	4,8	4,7	6,8
Non-current Financial Liabilities	43,6	44,2	44,9
Non-current Payables	74,4	69,1	67,0
Deferred Tax Liabilities	16,0	16,1	16,9
Non-current Liabilities	133,9	129,3	128,8
Non-current non-financial Liabilities	0,0	0,3	0,5
Current Personnel-related Payables	3,2	2,9	4,4
Other current Payables	3,5	4,1	2,1
Current non-financial Liabilities	6,7	7,0	6,5
Current Financial Liabilities	0,7	11,5	21,6
Bank Liability	8,9	10,1	14,9
Accounts Payables	51,6	47,8	60,7
Current Provisions	9,0	9,7	7,3
Current Liabilities	70,2	79,1	104,5
Total equity and liabilities	251,0	258,5	284,5

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting.*

Consolidated Cash Flow Statement

EUR M	Q2 2023	Q2 2022*	Q1-Q2 2023	Q1-Q2 2022*	LTM*	2022
EBITDA reported	7,0	4,3	11,1	7,8	27,1	23,9
Change in Working Capital	-1,2	-6,7	5,8	-12,3	26,3	8,3
Δ Inventory	*2,4*	*0,8*	*2,2*	*-3,6*	*19,7*	*14,0*
Δ Trade Receivables	*-5,3*	*5,0*	*-2,3*	*5,3*	*5,4*	*13,1*
Δ Trade Payables	*1,8*	*-12,5*	*6,0*	*-14,0*	*1,2*	*-18,8*
Other balance sheet items	-0,7	-2,8	-3,4	-2,6	-12,9	-12,2
Net cash from tax	-0,1	-0,3	-0,2	-0,3	-0,6	-0,7
Operating Cash Flow	5,0	-5,6	13,3	-7,4	39,9	19,3
CAPEX	-1,5	-1,5	-2,6	-2,1	-7,5	-7,1
Capitalized R&D	-2,1	-2,3	-4,5	-4,4	-8,9	-8,7
Capitalized IFRS 16	-0,7	-0,3	-0,8	-0,7	-1,0	-0,9
Proceeds from disposals	0,0	0,0	0,0	0,0	0,0	0,0
Cash Flow from Investing Activities	-4,2	-4,2	-7,8	-7,2	-17,4	-16,7
Free Cash Flow	0,8	-9,7	5,5	-14,6	22,6	2,6
Change in Deposites/Loans	0,0	10,1	-11,0	14,8	-21,2	4,6
Interest Result	-1,6	-0,8	-2,5	-1,5	-4,2	-3,2
Other Financing	0,0	0,0	0,0	0,1	0,0	0,1
Cash Flow from Financing Activities	-1,6	9,3	-13,5	13,4	-25,3	1,5
Net increase / decrease in Cash	-0,8	-0,4	-8,0	-1,2	-2,8	4,1
Cash Beginning of Period	10,0	12,4	17,2	13,0	12,0	13,0
Cash Increase/Decrease	-0,8	-0,4	-8,0	-1,2	-2,8	4,1
FX-Effects	-0,2	0,1	-0,3	0,2	-0,2	0,1
Cash End of Period	9,0	12,0	9,0	12,0	9,0	17,2

** Note: The quarterly 2022 figures have been adjusted to properly reflect the application of IFRS 15 also in the interim reporting and to present the repayment of the principal amount of lease liabilities according to IFRS 16.*

ADDITIONAL INFORMATION

General Information

Secop Group Holding GmbH

Secop Group Holding, HRB 14025, District Court Flensburg, is a limited liability company registered in Germany with its registered office in Flensburg. The address of the head office is Lise-Meitner-Straße 29, 24941 Flensburg, Germany. The operations of the Secop Group Holding GmbH (the "Parent Company") and its subsidiaries (the "Group") comprise of development, manufacturing and sale of compressor products and related activities.

Secop Group

Since September 2019, Secop Group has belonged to the ESSVP IV fund, advised by Orlando Management AG, a leading investor in industrial businesses. Since its acquisition, the company re-focused its strategy to the core business: design and manufacturing of hermetic compressors and electronic controls for refrigeration solutions used in light commercial and DC-powered applications.

Along the year 2020, a planned transformation process shaped the structure of the group as part of the strategic plan to reallocate valuable resources and development funds to Light Commercial, Mobile Cooling and Medical developments, limiting the household segment to niche applications where Secop's experience and technology can differentiate with premium solutions. Final steps of the transformation process executed in year 2020 were the closure of the plant in Austria, an operation facility focused on the household segment, the consolidation of operations in Slovakia and China, the establishment of a new R&D center in Austria and the opening of a new headquarter in Flensburg, Germany, with corporate testing laboratories and a development center for electrical motors and electronic controls.

Basis of Preparation

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

The consolidated financial statements have been prepared on a historical cost basis. The financial year of the Secop Group Holding GmbH and its subsidiaries included in the consolidated financial statements corresponds to the calendar year. The consolidated statement of comprehensive income was prepared using the function of expense method.

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

This quarterly consolidated financial statement includes Secop Group Holding GmbH and subsidiaries controlled by it.

Unless stated otherwise, all amounts are presented in millions of EUR (EUR m), rounding differences of ± one digit/unit are possible.

Changes of Accounting Principles

Since Q1-2023, Secop adopts the IFRS 15 principles also in the quarterly interim reporting. The comparable previous year's figures were adjusted accordingly. The effects on the Q2-2022 figures were EUR 1,3m on Net Sales and EUR 0,7m on Contribution Margin, EBITDA, EBIT, Profit before taxes and Net Income. The effect on the combined Q1 and Q2-2023 figures were EUR 7,9m on Net Sales and EUR 2,2m on Contribution Margin, EBITDA, EBIT, Profit before Taxes and Net Income.

Furthermore, since Q1-2023, the company has adjusted the structure of the Cash-flow Statement in accordance with IAS 7. According to the new structure, repayments of the principal amount of lease liabilities are presented under the Cash-flow from Financing Activities in accordance with IFRS 16, while changes of other balance sheet items are reclassified to the Operating Cash-flow. These adjustments changed the Operating Cash Flow and the Cash Flow from Financial Activities by EUR -1,6m in Q2-2022 and for the first half of the year 2022 by EUR 0,1m compared to the previous year reported figures.

Events after Balance Sheet Date

In June 2023, Secop announced that it has successfully issued a senior secured bond with an initial volume of EUR 50m, subject to certain conditions precedent. The bond issue saw a strong demand from a broad base of Nordic, Continental European, and U.S.-based investors and was oversubscribed by 10%. The bond carries a floating rate interest of EURIBOR 3m + 8.40 per cent per annum. The maturity of the new bond is until 29 December 2026. Beginning of July 2023, Secop announced that all conditions precedent had been fulfilled. Subsequently, the company has redeemed in full its existing bond. The new bond will be listed at the Stockholm Stock Exchange.

Audit

This Interim Report has not been audited or reviewed by the Group auditor.

Additional Commentary on the Income Statement

Raw Materials

The Raw Material expenses decreased in Q2-2023 vs. the respective period in 2022 because of a lower business volume, while the unit costs were still slightly higher than in Q2-2022. The prices for electronics have been normalized in Q2-2023 and are expected to remain on this level until year end.

Fixed Costs

The Fixed Costs are split as follows:

EUR M	Q2 2023	Q2 2022	Q1-Q2 2023	Q1-Q2 2022	LTM	2022
Fixed Personnel Costs	7,9	6,9	14,5	14,6	27,9	28,0
Other Fixed Costs	1,9	2,4	3,3	4,1	8,3	9,1
Total Fixed Costs	9,7	9,3	17,8	18,7	36,1	37,1

The Fixed Personnel Costs increased vs. Q2-2022 mainly because of the release of personnel-related provisions in Q2-2022 and an increase of the employee's remuneration. Other Fixed Costs undercut previous year's level mainly due to the settlement of the arbitration process with Nidec, which caused significant extraordinary legal fees in Q2-2022. On the other hand, net spendings for R&D-projects increased vs. previous year's period because of lower R&D-grants received.

Taxes

Taxes comprise negative effects from withholding taxes for intercompany recharges and the respective cash transfers with China.

Additional Commentary on the Balance Sheet

Fixed Assets

Intangible Assets remained on the level of Q4-2022. An increasing effect from the capitalization of R&D expenses acc. to IAS 38 was compensated by a reclassification of IFRS 16 Right of Use to Tangible Assets (EUR -2,0m).

Current Financial Assets

The Current Financial Assets increased by EUR 2,3m vs. 31 December 2022 mainly because of a reclassification of other receivables against Nidec after the payment of the settlement amount of the arbitration proceedings with Nidec.

Non-Current Liabilities

The main items under the Non-Current Liabilities are the outstanding Bond, the long-term portion of IFRS-16 Liabilities, Subordinated Shareholder Loans, and Deferred Tax Liabilities. Including accrued interests, the book-value of the outstanding Bond amounted to EUR 37,7m as of 30 June 2023. The company held own bonds with a nominal value of EUR 12,5m. The Subordinated Shareholder Loans increased by EUR 5,3m vs. 31 December 2022 following an injection of EUR 3,0m in connection with the payment of the arbitration settlement to Nidec and by accrued interests.

Current Financial Liabilities The Current Financial Liabilities decreased following the settlement agreement with the former Secop shareholder Nidec Europe B.V. and the respective payment in March 2023.

Bank Liabilities Bank Liabilities include a supply chain financing program with Chinese banks and liabilities from Letter of Credits issued in the ordinary course of the business. The super senior revolving credit facility (RCF) was repaid during Q2-2023 and not utilized on 30 June 2023.

Additional Commentary on the Cash Flow

Other B/S-items The change of other B/S-items in Q2-2023 mainly comprised the increase of the other receivables related to prepayments to vendors.

Financing Activities In Q2-2023, the amount of EUR 2,4m drawn in Q1-2023 under the revolving credit facility was repaid. This was offset by a higher utilization of Letter of Credits and an increase of IFRS16 liabilities. Interest expenses increased vs. Q2-2022 due to the generally higher markets rates.

Definition of Key Indicators

Reported EBITDA The Reported EBITDA is calculated according to IFRS standards. It reflects the Group Net Income according to IFRS before taking into account any Income Taxes, Financial Result and Depreciation & Amortization.

Internal Adjusted EBITDA In line with the Bond Terms & Conditions, the Internal Adjusted EBITDA represents the Reported EBITDA excluding unrealized currency gains/losses and gains/losses from the disposal of assets but including leasing costs acc. to IFRS 16. It also does not include extraordinary and non-recurring items, which are not in line with the ordinary course of the business (so called Adjustments).

Bond EBITDA The Bond-EBITDA represents the Internal Adjusted EBITDA, however, acc. to the Bond Terms & Conditions the excluded Adjustments are limited to 10% of the EBITDA before Adjustments or to specific “Business Plan Extraordinary Cost”.

Trade Working Capital The Trade Working Capital comprises of Inventory and Trade Receivables minus Accounts Payable.

Net Debt According to the Bond Terms & Conditions, the Net Debt position comprises interest-bearing Financial Liabilities less the Cash & Bank balance. Subordinated Shareholder

Loans are not part of the Net Debt position. The Vendor Loan of Secop's former shareholder Nidec was repaid and is therefore no longer part of the Net Debt.

Key Risks and Uncertainties

Demand & Supply	The Group's key risks and uncertainties relate to fluctuations in the demand for its products and the prices and availability of raw material, energy, and electronics as well as other commodity material prices. Measures to secure semiconductor supplies and to limit the impact of fluctuating raw material and energy prices are ongoing. However, certain shortages, which may affect the ability to produce and sell, cannot be predicted easily given the current status of the world economy and the economic-political situation in Europe.
Operations	Key operational risks are associated with the proper functioning of property, plant and equipment, the availability of trained staff and the access to raw material and logistics services.
IT	Failures of the IT-infrastructure and applications form a relevant risk for the Group as all relevant business processes rely on a continuing IT-availability. In addition, increasing cybercrime activities form a more present risk for the Group.
Finance	The main financial risks arise from the exposure to exchange rate fluctuations, in particular of USD and RMB, from increasing interest rates and from a possible default of Trade Receivables.
Ukraine	The crisis in Ukraine creates a high uncertainty regarding the future development of the world and European economy. So far, the biggest effects on Secop are the reduction of demand and the increase in energy prices and subsequently their effect on the prices and availability of other production material.
ESG	We refer to the most recent nonfinancial report for more details regarding Environment, Social and Governance risks.

For a more detailed description of key risks and uncertainties, please refer to Secop Group's latest Annual Report.

Company Information

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