Secop GmbH
Flensburg

Annual financial statements,
management report and
auditor’s report
for the financial year from 1 January 2023 to
31 December 2023

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Statement of financial position dated 31 December 2023

A s s e t s

	31/12/2023 EUR	EUR	Previous year	EUR
A. Non-current assets				
I. Intangible assets				
1. Self-created industrial property rights and similar rights and titles	9,463,576.51		1,556,773.88	
2. Advance payments	22,354,845.58	31,818,422.09	25,747,842.04	27,304,615.92
II. Property, plant and equipment				
1. Technical plant and machinery	323,761.89		315,441.89	
2. Other systems, operational and business equipment	114,283.00		101,372.00	
3. Advance payments and assets under construction	14,555.78	452,600.67	22,106.56	438,920.45
III. Financial assets				
Shares in corporate affiliates		9,010,750.00		9,010,750.00
		41,281,772.76		36,754,286.37
B. Current assets				
I. Receivables and other assets				
1. Trade receivables	6,414,686.20		9,345,924.61	
2. Receivables from corporate affiliates	11,739,145.64		15,104,405.72	
3. Other assets	2,900,273.41	21,054,105.25	4,099,809.32	28,550,139.65
II. Cash, cash at banks		1,318,845.60		5,002,429.62
		22,372,950.85		33,552,569.27
C. Prepaid expenses		142,215.31		139,110.18
		63,796,938.92		70,445,965.82

L i a b i l i t i e s

	31/12/2023 EUR	Previous year 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	-41,216,008.44	-30,102,116.99
IV. Net loss for the year	-12,317,529.44	-11,113,891.45
	12,124,154.92	24,441,684.36
B. Provisions		
1. Pension provisions and similar obligations	3,793,116.00	3,876,264.00
2. Tax provisions	583,791.23	529,500.82
3. Other provisions	1,846,903.30	973,173.30
	6,223,810.53	5,378,938.12
C. Liabilities		
1. Trade payables	501,528.34	570,596.54
2. Liabilities to corporate affiliates	43,911,826.83	38,852,464.15
3. Other liabilities of which from taxes: EUR 56,689.69 (PY EUR 54,375.24)	899,871.30	1,202,282.65
	45,313,226.47	40,625,343.34
D. Deferred income	135,747.00	0.00
	63,796,938.92	70,445,965.82

Secop GmbH, Flensburg

Income statement for the period from 1 January to 31 December 2022

			2023 EUR	2022 EUR
1.	Revenue		110,191,543.54	123,337,418.76
2.	Capitalised self-produced assets		5,876,813.64	6,527,017.66
3.	Other operating income of which from currency translation EUR 9,246.18 (PY EUR 925,630.85)		374,460.56	1,907,241.45
4.	Cost of materials			
	a) Expenses for raw, secondary production and production process materials and purchased goods	84,940,759.63		
	b) Expenses for services purchased	11,507,209.38	96,447,969.01	120,277,269.29
5.	Personnel expenses			
	a) Wages and salaries	3,546,516.68		
	b) Social security and retirement and support pensions	319,543.93	3,866,060.61	3,677,747.85
	of which from retirement pensions EUR -156,036.61 (PY EUR 143,473.45)			
6.	Amortisation of intangible non-current assets and property, plant and equipment		1,430,722.82	3,475,158.44
7.	Other operating expenses of which from currency translation EUR 332,120.01 (PY EUR 606,169.94)		23,942,949.34	14,549,439.08
8.	Income from debt financial assets of which from corporate affiliates EUR 0.00 (PY EUR 0.00)		0.00	0.00
9.	Other interest and similar income of which from corporate affiliates EUR 0.00 (PY EUR 0.00)		16,269.46	357,384.12
10.	Interest and similar expenses of which to corporate affiliates EUR 385,674.76 (PY EUR 112,888.87) of which from accrual of interest EUR 183,275.00 (PY EUR 124,527.00)		1,094,974.14	452,052.14
11.	Earnings before taxes		-10,323,588.72	-10,302,604.81
12.	Income taxes		1,991,429.12	809,631.95
13.	Earnings after taxes		-12,315,017.84	-11,112,236.76
14.	Other taxes		2,511.60	1,654.69
15.	Net loss for the year		-12,317,529.44	-11,113,891.45

Secop GmbH, Flensburg

Notes to the financial statements for the period 1 January to 31 December 2023

I. General disclosures regarding the annual financial statements

The annual financial statements of Secop GmbH dated 31 December 2023 have been prepared in accordance with accounting rules under the German Commercial Code (Handelsgesetzbuch - HGB) and the German Limited Liability Companies Act (GmbH-Gesetz), observing generally accepted accounting principles.

The income statement was prepared applying the total cost method.

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

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 cost less scheduled, usage-related depreciation/amortisation. Advance payments are measured at nominal value. If the value of non-current assets measured applying the aforementioned principles is greater than their attributable fair value on the reporting 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.

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 on a straight-line basis pro rata temporis.

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.

Receivables and other assets

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

Cash at banks

Cash at banks are carried at nominal value.

Deferred items

Expenses accruing in periods before the reporting date are recorded as prepaid expenses if they represent an expense for a period after the reporting date.

Shareholders' equity

Subscribed capital is carried at nominal value.

Provisions

Provisions for pensions and similar obligations are calculated via an actuarial formula applying the projected unit credit method with an interest rate of 1.83% p.a. (previous year: 1.78%) 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 the basis for measuring pension provisions and similar obligations. Annual wage and salary increases were not taken into account.

Provisions for service anniversary obligations are calculated via an actuarial formula applying the projected unit credit method with an interest rate of 1.75% p.a. (previous year: 1.44 %). 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.

Currency translation

Assets and liabilities in foreign currency are measured at the mean spot 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 mean spot rate on the reporting date.

Non-current foreign currency liabilities are measured at the greater of the mean spot rate at the time the liability arises or the mean spot rate on the reporting date.

Resulting profits and losses are recognised in the income statement.

III. Notes to the annual financial statements

Notes on the statement of financial position

Non-current assets

Please refer to the schedule of assets for the period 1 January 2023 to 31 December 2023, attached to the Notes. Capitalised development costs include projects for the electronics of the future variable-speed generation (BD Nano, SLV, DLV, NLV).

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 costs are 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.

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

No special depreciation allowances on intangible assets are recognised in the 2023 financial year (previous year: EUR 2,369 thousand). In the previous year, special depreciation of EUR 2,369 thousand was recognised for the capitalised development costs for the former Household division (XV generation).

In connection with the capitalisation of the development costs, an amount of EUR 31,818 thousand is restricted from distribution per Section 268(8) of German Commercial Code (HGB).

Shareholdings

Overview of financial investments:

Name	Domicile	% equity stake	Equity	Profit/loss for 2023
			kEUR	kEUR
Secop Austria GmbH	Gleisdorf, Austria	100	4,661	336
Secop Italia s.r.l.	Milan, Italy	100	499	77

Trade receivables

Trade receivables of EUR 6,414 thousand are due within a period of one year (previous year: EUR 9,346 thousand). In the financial year, the company recognised impairments for trade receivables from developing countries of EUR 2,147 thousand.

Receivables from corporate affiliates

Receivables from corporate affiliates amounted to EUR 11,739 thousand (previous year: EUR 15,104 thousand), of which EUR 11,730 thousand represented trade receivables (previous year: EUR 13,369 thousand) and EUR 9 thousand represented other receivables from shareholders (previous year: EUR 1,411 thousand).

All receivables are due within a period of one year.

Other assets

Other assets include in particular sales tax refunds owed from tax authorities (EUR 435 thousand, previous year: EUR 770 thousand), receivables from a factoring company (EUR 1,375 thousand, previous year: EUR 2,374 thousand) and receivables from staff. Other assets are due within a period of one year, excepting an amount of EUR 840 thousand (previous year: EUR 840 thousand).

Share capital

Share capital totals EUR 26,000.00

Pension provisions and similar obligations

The difference per Section 253(6) HGB, i.e. the difference between pension provisions measured at the average market interest rate for the past seven years (EUR 3,838 thousand) and pension provisions measured at the average market interest rate for the last ten years (EUR 3,793 thousand) as of 31 December 2023 was EUR 45 thousand (previous year: EUR 210 thousand). The difference 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 withholding tax for payments to the Chinese affiliate of EUR 779 thousand, customer bonuses of EUR 357 thousand (previous year: EUR 574 thousand) as well as for other personnel expenses, including service anniversaries, in the amount of EUR 709 thousand (previous year: EUR 186 thousand).

Trade payables

Trade payables to third parties in the amount of EUR 501 thousand are due within a period of one year (previous year: EUR 571 thousand).

Liabilities to corporate affiliates

Liabilities to corporate affiliates amounted to EUR 43,911 thousand (previous year: EUR 38,852 thousand), of which EUR 32,848 thousand represented trade payables (previous year: EUR 34,228 thousand), EUR 1,734 thousand represented other liabilities (previous year: EUR 3,222 thousand) and EUR 7,917 thousand represented loan liabilities (previous year: EUR 1,402 thousand). Liabilities to the shareholder total EUR 9,651 thousand (previous year: EUR 4,624 thousand).

An amount of EUR 34,583 thousand (previous year: EUR 37,450 thousand) of the liabilities is payable within one year, while EUR 0 thousand (previous year: EUR 0 thousand) is due between one and five years. Liabilities of EUR 7,917 thousand (previous year: EUR 1,402 thousand) have a maximum remaining term of more than five years.

Other liabilities

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

Notes on the income statement

Income and expenses per Section 285 No. 31 HGB: The amount of revenue from allocated management fees charged to the Slovakian company reduced by EUR 8,024 thousand, reflecting a change in corporate group allocation expense accounting in 2023. Value adjustments concerning trade receivables from developing countries of EUR 2,147 thousand were recorded in the financial year.

Revenue

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

	2023 kEUR	2022 kEUR
Revenue from sales of goods	94,969	116,341
Revenue from allocated management fees	9,095	1,071
Licensing income	6,128	5,925
Total	110,192	123,337

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

	2023 kEUR	2022 kEUR
Domestic	7,559	10,404
European Union	60,797	69,823
Rest of world	41,836	43,110
Total	110,192	123,337

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 principally comprises amortisation of intangible assets (capitalised development costs) in the amount of EUR 1,363 thousand and unscheduled amortisation of intangible assets in the amount of EUR 0 thousand (previous year: EUR 2,369 thousand).

Other operating expenses

Other operating expenses primarily comprise allocated corporate allocation items, travel, IT, sales & marketing, license, consulting and insurance expenses.

Total research & development expenses

Research & development expenses for 2023 totalled EUR 14,441 thousand, stemming from multiple development projects. Of this amount, EUR 5,877 thousand was capitalised in the financial year under review.

Financial result

The financial result includes interest income and expenses in relation to 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

Deferred taxes

The company utilises the option per Section 274(1) HGB of not recognising deferred tax assets. Deferred tax assets and liabilities are reported in net terms in the statement of financial position.

Deferred tax assets are primarily recognised for temporary 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%.

Factoring

The Secop Group partly sells short-term trade receivables to a third party as part of 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 in the statement of financial position. The factor considers 10% of the receivables to be a self-withholding amount that is not paid out and is reported as a receivable from the factor in the other assets item. The company has a line of credit of EUR 20,000 thousand, of which EUR 10,911 thousand had been drawn down on 31 December 2023.

Other financial obligations, guarantee/warranty liability

Other financial obligations from rental, lease and maintenance contracts for subsequent years total EUR 6,836 thousand (of which EUR 1,544 thousand is due in less than one year).

On 29 June 2023 the parent company, Secop Group Holding GmbH, Flensburg, issued a senior secured floating rate bond with an initial volume of EUR 50 million maturing on 29 December 2026 on the Stockholm Stock Exchange (Sweden). The bond from 2020 was fully repaid. 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

Dilasso Bath S.à.r.l., based in Luxembourg, prepares the consolidated financial statements for the largest group of companies. This is available in the electronic bulletin in Luxembourg. Secop Group Holding GmbH, Flensburg, prepares consolidated financial statements for the smallest group of companies to which Secop GmbH and its subsidiaries belong. These are submitted electronically to the business register in German, which then publishes them electronically in the German Federal Gazette. Secop GmbH is therefore released from obligation to prepare a separate consolidated financial statements and a group management report. Disclosures on accounting/measurement and consolidation methods deviating from German law are 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 Section 285 No. 9 a HGB have been omitted in line with Section 286(4) HGB.

Executive management

Dr Jan Ehlers, Timmendorfer Strand, Managing Director
Mr Michael Engelen, Buxtehude, Managing Director

Average number of employees

	2023	2022
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 12,317,529.44 is carried forward to the following financial year.

Significant post-reporting date events/transactions

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

Flensburg, 14 May 2024

Jan Ehlers Managing Director	Michael Engelen Managing Director

Change in non-current assets for financial year 2023 as of 31/12/2023

	Acquisition/production cost					Cumulative depreciation/amortisation				Carrying values	
	01/01/2023	Additions	Disposals	Reclassifications	31/12/2023	01/01/2023	Additions	Disposals	31/12/2023	31/12/2023	31/12/2022
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
I. Intangible assets											
1. Self-created industrial property rights and similar rights and titles	20,630,989.03	5,876,813.64	0.00	3,392,996.46	29,900,799.13	19,074,215.15	1,363,007.47	0.00	20,437,222.62	9,463,576.51	1,556,773.88
2. Advance payments	25,747,842.04	0.00	0.00	-3,392,996.46	22,354,845.58	0.00	0.00	0.00	0.00	22,354,845.58	25,747,842.04
	46,378,831.07	5,876,813.64	0.00	0.00	52,255,644.71	19,074,215.15	1,363,007.47	0.00	20,437,222.62	31,818,422.09	27,304,615.92
II. Property, plant and equipment											
1. Technical plant and machinery	1,430,838.44	46,355.12	0.00	0.00	1,477,193.56	1,115,396.55	38,035.12	0.00	1,153,431.67	323,761.89	315,441.89
2. Other plant assets, operational and business equipment	302,526.25	42,591.23	8,896.13	0.00	336,221.35	201,154.25	29,680.23	8,896.13	221,938.35	114,283.00	101,372.00
3. Advance payments and assets under construction	22,106.56	0.00	7,550.78	0.00	14,555.78	0.00	0.00	0.00	0.00	14,555.78	22,106.56
	1,755,471.25	88,946.35	16,446.91	0.00	1,827,970.69	1,316,550.80	67,715.35	8,896.13	1,375,370.02	452,600.67	438,920.45
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	9,010,750.00	9,010,750.00
	9,010,750.00	0.00	0.00	0.00	9,010,750.00	0.00	0.00	0.00	0.00	9,010,750.00	9,010,750.00
	57,145,052.32	5,965,759.99	16,446.91	0.00	63,094,365.40	20,390,765.95	1,430,722.82	8,896.13	21,812,592.64	41,281,772.76	36,754,286.37

Secop GmbH

Management Report for the 2023 Financial Year

1. Company profile

1.1. Business model

Secop GmbH ("DES" or "Secop"), registered in Flensburg, Germany, is a wholly-owned subsidiary of Secop Group Holding GmbH (SGH).

In the **Stationary Cooling** segment, the Group sells compressors for commercial cooling applications, which mainly include compressors for bottle coolers and glass door refrigerators, compressors for commercial refrigerators and compressors for supermarket freezers and marketing coolers. In the **Mobile Cooling** division, the 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 applications. In the **Medical Cooling** segment with its stationary and mobile solutions, Secop partners with 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.

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

As part of its operating activities the company also provides headquarter services 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.

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.

1.2. Control system

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

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

1.3. Research and development

Secop's product development activities are focussed on promoting the use of natural "green" refrigerants to adapt to the trends in many regions of the world to increase energy efficiency in order to reduce global carbon emissions and the miniaturisation of refrigeration compressors to reduce the use of raw materials.

In 2023, the **Mobile Cooling** segment launched the new BD Nano mobile cooling platform on the market, whose compact size offers excellent cooling performance, energy consumption and noise development in its class. The new product supports the Group strategy and has significant potential in the rapidly growing market for electromobility. In terms of application, the Group released a new generation of electronic control units to the market. They contain the latest technology and advanced functions for a wide range of applications in the Light Commercial Segment and control the compressor as well as the customer application based on customer-specific parameters. In **Stationary Cooling**, the new KLF platform was expanded with a whole range of R290 models that provide up to 10% greater energy efficiency and 20% lower costs compared to the previous DLE generation. The KLF compressors range was also expanded up to a cubic capacity of 9 cm³ in response to the market requirements for miniaturization in which smaller compressors are able to provide the power of the larger platforms previously used. In the **Medical Cooling** segment, a special, customised series for compressors with greater durability and optimised use with various refrigerants was developed for the ULT (ultra low temperatures) business. This supports the development of mobile boxes and evaporator sets that are developed and supplied by the Group and can reach temperatures down to -80°C.

In 2024 the Group expects that the introduction of NLE and SCE platforms with advanced cooling capacity and improved variable-speed solutions in the ULT business will enhance the Group's competitiveness in the Stationary Cooling segment. The Mobile Cooling segment will benefit from the new BD Nano platform and the updated series of electronic control units that were developed for specific solutions in the automotive sector.

In 2023, the Group's R&D expense amounted to EUR 15.5 million (previous year: EUR 13.5 million). A total of 52% (previous year: 57%) was capitalised in the financial year. An average of around 148 employees work in the area of R&D. The Group may register patents to safeguard the research and development results.

2. Economic report

2.1. Macroeconomic and sector-specific conditions

The global economy proved surprisingly resilient in 2023, whereas the German economy recorded a 0.3% decline in gross domestic product for the year due to high inflation of 5.9%[1] and uncertainties in energy and raw materials prices.[2]

The decline is primarily due to the sharp rise in energy prices in the first half, which caused households to adjust their demand and continued into the second half of the year. Industry also suffered from the high energy prices and low foreign demand from China and the USA. Private consumption is expected to rebound slightly in 2024, as inflation will likely act as a brake on the development of the key interest rate and real wages could rise as inflation falls and new collective bargaining agreements enter into force. This would stimulate private consumption and help to revive the economy.[3] The labour market remained stable and robust despite rising inflation and high energy prices, as the skills shortage continued to hamper growth across almost all sectors.[4] In the autumn of 2023, employment reached an all-time high with over 46 million people employed.[5] Unfortunately, the mood amongst companies is decidedly negative. Only during the financial crisis and the pandemic has the mood been worse, albeit it recovered slightly in the manufacturing sector

[1] Source: IWH, Konjunktur Aktuell, 4/2023, 11. Jahrgang, 14 December 2023, p. 115.
[2] Source: BMWK, Schlaglichter der Wirtschaftspolitik, March 2024, p. 8.
[3] Source: DIW, Wochenbericht 50, 2023, p. 723.
[4] Source: BMWK, Schlaglichter der Wirtschaftspolitik, March 2024, p. 10.
[5] Source: BMWK, Schlaglichter der Wirtschaftspolitik, March 2024, p. 16.

towards the end of the year. For Germany, falling inflation and the associated expected reductions in the key interest rate[6] are predicted to result in growth of between 0.2% and 0.6% in 2024. Inflation is expected to fall back below 2% in 2025[7], which is likely to have a positive impact on production and private demand with predicted growth of 1% in 2025.[8]

The economy in Europe remained flat, with growth of just 0.5% expected in 2023. Inflation in the euro area is likely to remain at a high 5.3% in 2023, while weak foreign demand and restrictive monetary policy are also putting a damper on the economy in the euro area. Consumer confidence has recovered from its downward trend, but remains weak. This is also the case for business indicators. Despite this, the European labour market proved to be robust and employment increased, albeit with initial signs of cooling. Industrial production slowed its descent and proved to be relatively robust despite the high key interest rates, but is expected to have a negative impact on the economy in the coming quarters due to the unfavourable financing conditions if there is no turnaround in monetary policy.[9] The global economy is unlikely to provide much momentum for net foreign demand for the time being. The main driver of economic growth will be the revival of private consumption, as falling inflation rates and rising nominal wages will likely lead to increased real wages by 2025 and stimulate private consumption. The labour market is expected to remain resilient until 2025 with an unemployment rate of around 6.5% into 2025, although the recovery in private consumption and a recovery in foreign demand could reinvigorate the employment figures.[10] Demand from the USA and Asia is expected to gradually recover during the year and continue to gain traction in 2025. Overall, the euro zone is expected to grow by 0.5% in 2023. In the following years, the recovery is predicted to lead to growth of 0.9% in 2024 and 1.4% in 2025.[11]

In contrast to other developed economies, the US economy reported strong growth of 2.5% in 2023.[12] This is primarily due to the growth in private demand generated by tax relief in previous years,[13] which was able to more than make up for the drop in corporate investments resulting from government subsidies in renewable energies and semiconductor plants from the first half.[14] The boom in corporate investments in the first half was a one-off effect caused by the passage of the Chips & Science Act and the Inflation Reduction Act.[15] Exports and imports also increased significantly, maintaining a net zero trade balance. But the mood is souring even in

[6] Source: DIW, Wochenbericht 50, 2023, p. 710.
[7] Source: BMWK, Schlaglichter der Wirtschaftspolitik, March 2024, p. 15.
[8] Source: DIW, Wochenbericht 50, 2023, p. 710.
[9] Source: DIW, Wochenbericht 50, 2023, p. 711.
[10] Source: DIW, Wochenbericht 50, 2023, p. 710.
[11] Source: DIW, Wochenbericht 50, 2023, p. 711.
[12] Source: DIW, Wochenbericht 50, 2023, p. 716.
[13] Source: BMWK, Schlaglichter der Wirtschaftspolitik, March 2024, p. 40.
[14] Source: DIW, Wochenbericht 50, 2023, p. 716.
[15] Source: DIW, Wochenbericht 36+37, 2023, p. 482.

the USA: the tight US labour market proved to be resilient, but has started to cool.[16] The unemployment rate increased slightly by 0.3% but remains at an historically low rate of 3.7%. However, this could have an impact on private consumption during the course of the year, as the savings accumulated by private households from tax breaks introduced during the years of the pandemic are expected to be almost fully utilised in 2023.[17] As a result, performance is primarily dependent on corporate investment, which could improve from the summer of 2024 if the expected turnaround in interest rates comes to fruition and stimulates the economy. Inflation remains at 4%, but (just like Europe) is expected to fall back below 2% in 2024 and 2025 with initial interest rate cuts predicted in early summer 2024. Due to the weak momentum, the US economy is expected to grow at a slower rate of 1.6% in 2024 and 1.7% in 2025.[18]

The Chinese economy was unexpectedly volatile due to the pick-up in consumer spending at the start of 2023 as a consequence of the removal of pandemic-related restrictions.[19] However, in the third quarter China once again grew strongly with quarterly growth of 1.3%. Despite this, the economy remains in a weak phase due to the persistent real estate crisis and the drop in consumer confidence, which is impacting private consumption. This is being exacerbated by weak foreign demand from Europe and the USA, which is dampening exports. China has responded with a substantial stimulus package, with initial interest rate cuts and low deposit requirements for real estate purchases, which is already showing initial success and explains the improved forecasts. The price development in China is the exact opposite to Europe, as consumer prices recorded a deflationary trend in the last quarter. For instance, consumer prices fell by 0.2% in October compared to the average for the year, which had a further negative influence on consumption. This development led to a loosening of monetary policy in China with two further interest rate cuts since. The low demand in foreign trade remains a drag on growth, even if the economic recovery in advanced economies is expected to gain momentum by the start of 2024. However, economic growth is still predicted to remain above that of other developed industrialised nations. Even so, the Chinese economy is reported to have grown by 5.3% in 2023; the weakest rate of growth in three decades, excluding the 2020 - 2022 pandemic years. And growth is expected to continue to decline in the coming years.[20] The unresolved real estate crisis and increasing debt, which is restricting investment, the demographic headwind and limited opportunities to regain productivity are likely to act as a brake on potential growth.[21] As a result, China is expected to grow by 4.7% in 2024 and 4.2% in 2025.[22]

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[16] Source: DIW, Wochenbericht 50, 2023, p. 716.
[17] Source: BMWK, Schlaglichter der Wirtschaftspolitik, March 2024, p. 40.
[18] Source: DIW, Wochenbericht 50, 2023, p. 716.
[19] Source: BMWK, Schlaglichter der Wirtschaftspolitik, March 2024, p. 41.
[20] Source: DIW, Wochenbericht 50, 2023, p. 723716.
[21] Source: BMWK, Schlaglichter der Wirtschaftspolitik, March 2024, p. 41.
[22] Source: DIW, Wochenbericht 50, 2023, p. 723716.

In summary, the global economy lost momentum in 2023. Industrial production and global trade stagnated as the catch-up effects of the previous year as a result of the coronavirus pandemic largely abated and global increases in leading interest rates to combat inflation dampened investment in almost all countries apart from China. Besides this, the ongoing Russia-Ukraine conflict and the situation in the Middle East are clouding the outlook for the global economy, particularly in Europe.

2.2. Business development and situation

Development of the Secop Group's overall business volume was restrained in 2023, although the product portfolio shifted to much more profitable transactions and the margins returned to a sustainable level following a very difficult 2022.

The market development in the **Stationary Cooling** segment continued to slow following the investments in previous years, particularly in food retail in Europe and America. Net sales in Europe, America and the Middle East failed to reach the levels posted in the previous year, while China recorded an increase in sales to partly offset the fall in demand in Europe and the USA.

In China, customers in the food service as well as food retail sectors ensured a good order situation, particularly in the second half of 2023, in order to meet the rising demand for cooling appliances in the Chinese domestic market. In Europe and the USA, the food retail segment recorded lower demand year-on-year due to limited investments as a result of an unstable market situation as well as a high inflation rate. In the food service sector in Europe and America demand for cooling solutions for hotels, restaurants and catering was lower throughout almost the entire 2023 period year-on-year. Even the beverage segment reported demand below expectations in all regions. The reluctance to invest in the food retail sector and beverage industry also had an influence on the distribution network, which led to a decline in investments for new plants as well as the modernisation of old plants. Irrespective of the lower demand for existing products, Secop was able to achieve initial successes from the introduction and authorisation of new products. Various customers are actively working to upgrade their product portfolio in order to bring environmentally friendly and efficient cooling solutions onto the market that comply with the new requirements, particularly for energy labelling.

In the **Mobile Cooling** segment, in 2023 demand was driven by the positive development of new projects from the automotive and eCars business in China. Secop products have established themselves in various new projects for eCar applications and the demand for integrated refrigerators in new eCar concepts in China is increasing demand for matching Secop compressors. The new BD Nano platform is particularly well-suited to the requirements of these projects and will allow Secop to build on its market share and extensive experience with cooling solutions for the automotive industry. The strong rise in demand from the automotive segment was able to partially compensate a fall in recreational vehicles in the USA and Europe as well as a decline in demand for portable boxes in China.

In 2023, the **Medical Cooling** segment recorded demand below the level in the previous year. Investments in the medical cold chain declined in 2023, which reflects the overall cautious approach that can also be observed for the other segments in America and Europe. In China too, medical demand was below expectations, as the investment level following the coronavirus pandemic fell due to limited government support for the development of the medical cold chain network. However, overall, the decline in demand marks more of a return to a normal growth level following the boost in demand triggered by the coronavirus pandemic in 2021 and 2022. To ensure continued potential growth, in 2023 Secop continued to actively work towards the successful completion of various projects to develop a more efficient medical cold chain.

The gross margins achieved in 2023 improved in comparison to 2022 due to a better product mix and more stable or falling raw material, energy and freight prices, although these remain above pre-crisis levels. The gross margin (revenue less cost of sales) in relation to sales of 21% is higher than that reported in 2022 (16%).

In 2023, earnings were negatively impacted by a fall in sales as a result of political and economic uncertainties and persistently high inflation, which was able to be at least partially compensated by the better margin development. The key management figure of EBITDA came in at EUR -7.8 million, recording a slight decline year-on-year (EUR -6.7 million), particularly due to the negative non-recurring effects in 2023 as a result of the allowance for trade receivables from developing countries and the decline in revenue.

In summary, targeted sales and the forecast result could not be achieved in 2023 due to a range of external factors. In view of the considerable challenges faced in 2023, such as the ongoing Ukraine-Russia conflict and persistently high inflation, the Management Board is satisfied with the company’s economic performance.

2.2.1. Results of operations

The table below provides an overview of the significant changes in earnings versus the previous year:

	2023 k€	2022 k€	Change k€
Revenue	110,192	123,337	-13,146
Other own work capitalised	5,877	6,527	-650
Other operating income	374	1,907	-1,533
Cost of materials	-96,448	-120,277	23,829
Personnel expenses	-3,866	-3,678	-188
Other operating expenses	-23,943	-14,549	-9,394
EBITDA	**-7,814**	**-6,733**	**-1,081**
Depreciation, amortisation and impairments	-1,431	-3,475	2,044
EBIT	**-9,245**	**-10,208**	**963**
Financial result	-1,079	-95	-984
Earnings before taxes (EBT)	**-10,324**	**-10,303**	**-21**
Income taxes	-1,991	-810	-1,181
Other taxes	-3	-1	-2
Net loss for the year	**-12,318**	**-11,114**	**-1,204**

Revenue of EUR 110.2 million in 2023 declined year-on-year, as political and economic uncertainties led to a fall in sales.

Capitalised own work fell slightly from the previous year, due to the lower overall project volume and the completion of a number of projects in the financial year.

Other operating income declined by EUR 1.5 million year-on-year. In addition, the other income includes income from the reversal of provisions, exchange rate gains as well as research grants.

Cost of materials was below the level reported the previous financial year, consisting principally of EUR 84.9 million in expenses from purchased goods from the supplying plants, which fell by 23.4% (previous year: EUR 110.9 million).

Personnel costs rose by EUR 0.2 million in 2023 compared to the previous year. The average number of employees was unchanged year-on-year at 35. This change is due to the collectively agreed pay rise as well as the increased accruals for employee bonuses for 2023, as the Group missed its EBITDA targets in the previous year and did not pay out any employee bonuses.

Other operating expenses increased by EUR 9.4 million from 2022 to EUR 23.9 million. Other operating expenses primarily comprise Group allocation expenses as well as travel, IT, sales & marketing, license, consulting and insurance expenses. The increase was the result of the commitment fee (EUR 9.1 million) for the Slovakian group company in 2023. Moreover, operating expenses include value adjustments for trade receivables from developing countries in the amount of EUR 2.1 million.

Depreciation and amortisation declined by EUR 2.0 million in the 2022 financial year as impairments of EUR 2.3 million were recorded for the old Household technologies in 2022.

The financial result declined by EUR 1.0 million to EUR 1.1 million in 2023, primarily due to the increase in the market interest rate level for the lines of credit for factoring as well as a larger loan to the shareholder.

The loan liabilities to SGH increased to EUR 7.9 million in 2023 (previous year: EUR 1.4 million) with a corresponding increase in the interest expense. Loan liabilities rose due to the liquidity requirements within the Group.

Income taxes consist primarily of withholding tax paid (EUR 1.9 million) and for corporation and trade taxes for previous years in the amount of EUR 0.1 million as well as for a tax audit.

2.2.2. Net assets

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

	31/12/2023	31/12/2022	Change
	k€	k€	k€
Non-current assets	42,122	37,595	4,527
Current assets	21,674	32,851	-11,177
Total assets	**63,796**	**70,446**	**-6,650**

Non-current assets consist of EUR 41.2 million in fixed assets (previous year: EUR 36.7 million) and a rental security deposit of EUR 0.8 million. Non-current assets include internally produced or self-created intangible assets as well as financial assets.

The EUR 4.5 million increase in non-current assets reflects capitalised R&D expenses of EUR 5.8 million and impairments taken on the old Household technologies in the amount of EUR 1.4 million.

Current assets decreased by EUR 11.1 million in 2022 versus the previous year. Trade receivables fell by EUR 2.9 million due to the fall in revenue resulting from high raw material and energy prices. Receivables from the factoring provider totalled EUR 1.4 million at 31 December 2023, reported under ‘other assets’. In 2023, receivables from corporate affiliates fell by EUR 3.4 million year-on-year, while cash and cash equivalents declined by EUR 3.7 million.

Capital structure

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

	31/12/2023	31/12/2022	Change
	k€	k€	k€
Shareholders' equity	12,124	24,442	-12,318
Provisions	6,224	5,379	845
Non-current liabilities	0	0	0
Current liabilities	45,312	40,625	4,687
Deferred income	136	0	136
Total assets	**63,796**	**70,446**	**-6,650**

Total non-current and current liabilities of EUR 45.3 million rose by 11% year-on-year, or EUR 4.7 million. This increase primarily reflects higher liabilities to corporate affiliates, which rose by EUR 3.7 million due to an increase in a corporate loan.

The equity ratio fell from 34.7% to 19.4%, due chiefly to the net loss recorded for the year.

2.2.3. Financial position

The cash flow from operating activities in the 2023 financial year deteriorated by EUR 11.8 million year-on-year to EUR -1.6 million. The deterioration in the operating cash flow is primarily due to the non-recurring effect in the previous year, such as the impairment of the old Household technology as well as the other statement of financial position items in 2022. In addition, the withholding tax paid of EUR 1.9 million had a negative impact on the operating cash flow.

Cash flow from investing activities declined by EUR 0.4 million due to a number of projects being completed at the end of the financial year (STM7, Vaccine Cooling Box and BD Nano).

The cash flow from financing activities in the 2023 financial year changed significantly in comparison to 2022 as an intra-Group loan was taken out. The interest paid changed considerably due to the general increase in the interest level in the factoring lines.

On a net basis, cash and cash equivalents declined by EUR 3.7 million between 31 December 2022 and 31 December 2023, totalling EUR 1.3 million on the reporting date.

Secop GmbH was able to meet its payment obligations at all times in 2023. 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.

SECOP

Analysis of the statement of cash flows

for the period from 1 January 2023 to 31 December 2023

	2023 k€	2022 k€
Operating activities		
EBIT	*-9,245*	*-10,208*
+ Depreciation/write-up of property, plant, and equipment, intangible assets and right-of-use assets	1,431	3,475
+ Increase/- decrease in provisions	845	1,753
+ Decrease/- increase in trade receivables and short term assets	7,709	8,494
- Decrease/+ increase in trade payables, other liabilities and short term provisions	-2,578	274
± Changes in other statement of financial position items	1,477	5,722
Income tax paid	-1,182	810
Income tax received	0	0
Cash flow from operating activities	***-1,544***	***10,320***
Investing activities		
- Investments in tangible assets	-102	-74
- Investments in intangible assets	-7,327	-7,782
+ Proceeds from sale of property, plant and equipment, intangible assets and right-of-use assets	29	13
Cash flow from investing activities	***-7,400***	***-7,842***
Financing activities		
+ Increase/- decrease in interest-bearing liabilities	6,350	-96
Interest and fees paid	-765	1
Interest received	16	0
Cash flow from financing activities	***5,601***	***-95***
Increase/decrease in cash and cash equivalents	**-3,342**	**2,383**
Cash and cash equivalents at 1 January	**5,002**	**2,300**
Increase/decrease in cash and cash equivalents	-3,342	2,383
Foreign exchange differences	-341	319
Cash and cash equivalents at 31 December	**1,319**	**5,002**

2.2.4. Summary statement

In summary, management considers the company to be in a satisfactory economic position. While the results of operations deteriorated in 2023 compared to 2022, in view of the significant external factors and challenges, particularly the general inflation and reticence of some customers to make purchases, this can still be classed as satisfactory.

3. Outlook

Given the ongoing political and economic uncertainties in the individual regions, a reliable forecast for virtually all markets for 2024 is difficult. Only in China does the Group expect a significant upturn in the two main Stationary Cooling and Mobile Cooling segments. The challenging macroeconomic factors that the Group faced in 2023 will persist in the first half of 2024. In view of the persistently high inflation rates of above 2%, the Ukraine-Russia conflict as well as the Israel-Gaza conflict and the continued poor economic growth prospects in Europe, the overall economic expectations are restrained.

The Secop Group only expects demand in the Stationary Cooling segment to be above the 2023 level in China, while remaining at the low level reported in the previous year in America as well as Europe. There are no signs of any significant recovery in demand in Europe and America, with most customers forecasting restrained demand throughout 2024. The Group also does not expect any noticeable improvement of the situation in the Middle East and Africa. The demand level is unpredictable due to the turbulences in the regions. Stable demand is expected in Southeast Asia in 2024 as well. This scenario particularly relates to the beverage, food retail and food service segments. Despite the restrained forecast demand for existing products, Secop expects increasing demand for the compressors recently launched on the market. The KL series models for environmentally-friendly refrigerants and the NLV series with new electronic control units service a new generation of cooling solutions that various customers are developing to meet new, more stringent energy labelling and other requirements for "green" cooling solutions.

The **Mobile Cooling** segment will primarily be driven by the development of demand in China and the Group expects the order level to exceed that of 2023, primarily as a result of the automotive segment. The market launch of new eCar projects commenced during the previous year will have a corresponding positive effect on production and sales of the BDNano platform. Following weak sales in 2023, a recovery is expected for the automotive and recreational vehicles market in Europe and America as well, once again supported by the new BD Nano platform. Overall, the expectation for the Mobile Cooling segment is that the rise in demand for refrigeration compressors for eCars in China in particular will compensate for the restrained demand for existing platforms in other regions resulting in total sales at the end of the year above the level reported in 2023.

For the **Medical Cooling** segment, the Group also expects a slight rise in demand. The ramp-up of the new platforms continued in the last quarter of 2023, which were recently released by leading customers and will now enter series production. The Group received approval to implement new highly efficient solutions for the storage and transport of medication from three customers. In addition, the last authorisation phase of a new, innovative solution for vaccine refrigerators suitable for remote installations in rural areas has been reached. These new products as well as the normalisation of customer inventories will help to underpin growth in the Mobile Cooling segment.

Secop is not forecasting any growth in sales compared to 2023, but EBITDA is expected to increase significantly in 2024, however this is heavily dependent on the economic and political development particularly in Europe, the Middle East and globally, as well as the ramp-up in demand for eCars in the Mobile Cooling segment.

4. Opportunities report

The Secop Group has focussed its activities on the Stationary Cooling, Mobile Cooling and Medical Cooling segments, with two modern production plants in Slovakia and China. This focus provides the opportunity for the targeted use of available resources for investments as well as the research and development activities, which also has a positive impact on business growth and profitability.

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

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

In the **Stationary Cooling** segment, which includes light industrial cooling applications, the key developments relate to applications in the food retail and food service sectors. The market trends in these segments indicate a shift towards environmentally-friendly refrigerants and energy-efficient solutions. Regulations in various regions are already restricting the use of refrigerants with high global warming potential (GWP), which is leading to a noticeable shift to green refrigerants with lower GWP. Among these environmentally-friendly refrigerants, hydrocarbons are the preferred option for the Secop product range. In response to this trend, Secop has developed a new product range optimised for hydrocarbons that strives to reduce greenhouse gas emissions. New versions of the KLF series have been placed on the market that offer a patented solution for reducing the risks of flammable refrigerants - a unique offer on the market. Secop is also working on the continued development of the NL and SCN platforms in order to launch new hydrocarbon-optimised models on the market that meet the market's demand for larger refrigerators with environmentally-friendly refrigerants and take account of the new environmental regulations.

Another important trend in food retail and food service is being driven by the requirements to reduce energy consumption in refrigerators. Secop is responding to this trend by developing new electronically-controlled compressors that optimise energy consumption and ensure the premium performance of the cooling units. These solutions will be tailored to the N and S platforms that are used in the food service and food retail industries. The roadmap includes new models of NLV and SLV compressors that take a modular approach to significantly improve energy efficiency. Combined with the use of environmentally-friendly refrigerants, these solutions are the perfect combination for meeting the rising demand for environmentally-friendly and energy-efficient cooling solutions. As a premium provider of a comprehensive range of cooling solutions, Secop has developed a roadmap to pave the way towards a green market transition that supports energy-efficient cooling systems.

The **Mobile Cooling** segment is also facing profound changes in the market: in particular, end consumers are increasingly demanding cooling solutions that ensure the cooling of food and beverages in various mobility situations. A clear rise in demand for mobile cooling units was recorded during the coronavirus pandemic, triggered by the change in consumer demand in the leisure and automotive sector. This trend continued after the pandemic and confirmed a change in habits with a positive impact on the demand for portable cooling units. In addition, the increasing number of electric vehicles (eCars) whose large batteries enable the installation of powerful refrigerators for cooling food and beverages while charging, during transport or when parking the vehicle, is creating a whole new market segment.

To meet the growing customer requirements and profit from the market trends, Secop has developed and launched the new BD Nano platform. This platform provides greater performance capacity, premium efficiency and a compact size that optimises the space requirement without negatively impacting cooling capacity or energy consumption. The platform was initially developed for recreational vehicles and will subsequently be expanded to motor vehicles and lorries. In addition, Secop is developing a solution tailored to the market for electric vehicles that also require silent operation.

The demand for electric vehicles is booming and the integration of an effective cooling solution for beverages and food in these vehicles is fascinating. The compressor technology provides exceptional benefits compared to other cooling solutions and Secop is a leader in mobile battery-operated compressors for automotive applications whose BD Nano platform offers a solution that fits perfectly with the requirements for this new market.

The transition from trivalent refrigeration technology to a more powerful and reliable compressor solution in recreational vehicles is also in full swing and is continuing to spur on demand for compressors, especially compressors with green hydrocarbon refrigerants. The Secop BD Nano platform once again provides a perfect solution for this trend with new versions tailored to the needs of the market for recreational vehicles and boats. The upcoming developments for the BD Nano platform, which will be manufactured in a new production line in China, will position Secop as a top supplier for the new generation of cooling systems that are operated by battery packs and meet the rising demand for mobile solutions for various modes of transport.

The **Medical Cooling** segment was established to develop solutions for the medical cold chain with a focus on environmentally-friendly refrigerants, energy-efficient solutions and superior control of system performance for the storage as well as the transport of medical products. The pandemic period identified various gaps and requirements in the medical cold chain, especially for vaccines that need to be stored and transported at extremely low temperatures of -80°C. Secop launched initiatives in collaboration with market leaders to develop innovative cooling solutions tailored to the medical cold chain with the aim of optimising performance, reliability, energy efficiency and system monitoring opportunities. Secop developed cooling systems that support complete cooling solutions for storage applications at ultra-low temperatures and are optimised with environmentally-friendly and efficient electronically-controlled compressors. As there is a clear trend towards energy optimisation and maximum reliability in medical applications as well, Secop's roadmap contains new generations of compressors and cooling solutions that integrate advanced electronic control units with data collection functions to monitor and preventive maintenance.

Secop's innovative ULT cooling solutions for vaccine transport boxes closes a critical gap in the supply chain and enables the reliable and controlled transport of vaccines, even under adverse ambient conditions. As mRNA therapies are showing promising results for the treatment of diseases beyond the coronavirus (such as cancers), Secop's mobile cooling solutions are targeting further developments to improve the efficiency and reliability of the medical cold chain. In addition, Secop is developing solar direct drive solutions (SDD) to support the last mile of the medical cold chain and enable vaccines to be distributed in remote areas with unstable or no power supply. Secop aims to use its experience with SDD solutions to optimise these systems with the new generation of compressors in order to ensure the efficient and reliable storage of vaccines and offer a flexible AC/DC solution tailored to the requirements of the WHO. The next generation of SDD solutions will offer data logging functions for better monitoring of the refrigerator and its performance, which will further increase reliability in medical applications.

Secop's core competence in medical system design enables the company to respond to specific customer needs and offer tailored solutions for the medical cold chain. This makes use of the latest compressor and control technologies to optimise efficient and reliable solutions for medical refrigerators.

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

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

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

In summary the opportunity situation is considered good.

5. 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 detection and assessment of opportunities and risks is an integral part of the planning, controlling and reporting processes. Identified risks are analysed and necessary countermeasures initiated based on probability of occurrence.

Cash management in particular is extremely important in the Group. The cash flow within the Group is optimised based on weekly, rolling liquidity planning as well as a quarterly company forecast together with stringent controlling. This aims to ensure that the Group always has adequate liquidity.

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

Market- and competition-related risks

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

- The technology competition between the USA and China in the field of semiconductors could pose a risk for the procurement of these assemblies. 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. Secop is currently not reliant on high-tech semiconductors and, as such, the Secop management considers this risk to be low.

- The market for hermetic compressors is characterised by high competitive pressure with, in some cases, highly variable raw material costs, which could lead to a situation in which Secop is not able to sell its products at prices above production costs. This risk primarily exists for less technologically advanced products. Irrespective of this, Secop always aims to pass rising raw material costs on to its customers. Secop management considers this risk to be moderate.

- In the sale of its products, the 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 to be moderate.

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

- An unexpected, widespread recurrence of new, more aggressive and resistant viruses or their mutations and resulting government lockdown measures poses a continued risk of an unforeseen decline in revenue. Possible delivery shortages of intermediate products due to the temporary closure of supplier production facilities may affect the production and thus the sales of Secop compressors. Investment projects and new product launches at major customers could be suspended or delayed, as there may be uncertainty about future economic developments. Secop management views this risk as low.

Operational risks

Production risk

- The Group 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 Group therefore carries out preventive maintenance of the machines and has a system-supported procurement policy for tools and consumables to ensure constant availability. Secop management considers this risk to be low.

Quality risk

- The quality of the goods produced is extremely important for the 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 Group therefore constantly monitors the quality of the products through internal testing. In addition, the company has introduced quality management systems that are certified by external auditors at regular intervals. The Group is certified in accordance with ISO 9001, 14001 and 45001 as well as IATF 16949. Secop management considers this risk to be low.

Procurement risk

- The prices and availability of certain raw materials can have an impact on the Group. It is exposed to market-related price fluctuations for some commodities, e.g. copper, steel and aluminium. In addition, some commodities are exclusively traded in foreign currencies, so exchange rates 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 considers this risk to be low.

Personnel risk

- Employees are essential to the success of the Group. The loss of employees, such as in the R&D department, could lead to an 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 Group thus provides training and other measures aimed at minimising personnel risk. Secop management considers this risk to be moderate.

Environmental risk

- The Group recognises the effects of climate change and takes responsibility towards citizens and future generations by initiating measures to reduce greenhouse gas emissions and to support the responsible use of resources. Climate change can have the following potential effects on the Secop Group: on the intrinsic value of the plants in the Group itself, in the form of carbon emissions and ultimately in the refrigerants used. The Group does not foresee any risks in relation to the impairment of its production facilities due to climate change in relation to flooding and storms. These are joined by the risks of the impact that the Group itself has on climate change. Energy efficiency is therefore critical for the Group, both in its own production activities in order to minimise the required energy input and in the manufactured compressors, which should consume as little energy as possible during operation. To achieve this goal while maintaining cooling performance, the Group is constantly furthering the development of its compressors. Another environmental aspect is the use of synthetic refrigerants, which could also have a negative impact on the climate and creates sales risks. As a result, the Group is targeting the use of more natural materials (e.g. natural “green” refrigerants) in order to replace the synthetic materials and protect the climate. Overall, Secop management considers the environmental risk to be low.

Company-specific risks

- The 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 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 considers this risk to be low.

- Disruptions to and failures of IT systems could negatively impact business. The Group uses IT systems that are necessary for proper administration as well as reporting, management and stock management. To do so, the Group procures IT services and uses IT systems supplied by external providers. Data centres and IT infrastructure are outsourced to third parties. The 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, response and processing times. Secop management considers this risk to be 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 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 to be low.

- Tax risks could arise if, for example, tax rules are not observed or the tax authorities interpret alternatives or certain structural options differently to Secop. This could result in a higher tax expense as a result of tax audits. The company counters this risk by consulting external specialists in tax matters. Secop management views 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 to be low.

Risk reporting on the use of financial instruments

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

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

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

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risks, such as raw material risk (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 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 necessary. 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. On the other hand, the Group can sell bond tranches back to the market. Management considers this risk to be moderate.

Currency risk

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

Default risk

The 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 ruling to collect the outstanding receivables. Secop management considers the risk of default of customer receivables to be moderate.

The Group counters the risk of bank failure through a diversified portfolio of banks, the selection of banks based on their competence, benefit and reliability for the Group, but also according to the rating of the respective banks. In addition, foreign and domestic bank balances are regularly monitored to limit the amount of possible defaults, as appropriate. Secop management considers this risk to be 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 Group.

The bond issued in 2023 obliges the 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 Group’s ability to continue as a going concern. The company counters the risk through regular reporting and a preventive regular review of the contractual financial covenants and other contractual obligations to be observed.

The 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.

Summary presentation of the risk position

Management believes that the risks to the Group described above are manageable and that any threat to the company as a going concern is unlikely, even with respect to risk aggregation. Risks that are not currently considered relevant are monitored by management in order to identify any adverse effect, which cannot be fundamentally precluded, at an early stage and to allow appropriate countermeasures to be taken in good time.

Flensburg, 14 May 2024

Dr Jan Ehlers	Michael Engelen
Managing Director	Managing Director

INDEPENDENT AUDITOR’S REPORT

Issued to Secop GmbH, Flensburg

AUDIT OPINIONS

We have audited the annual financial statements of Secop GmbH, Flensburg – consisting of the statement of financial position dated 31 December 2023, income statement for the financial year 1 January 2023 to 31 December 2023 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 2023 to 31 December 2023.

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 31 December 2023 and its earnings for the financial year 1 January 2023 to 31 December 2023; 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 Section 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 Section 317 HGB and with German generally accepted standards for financial statement auditing as 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 management report.

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

The company’s statutory representatives are responsible for preparation of the annual financial statements, which comply in all material respects with the German commercial code accounting provisions applicable to stock corporations, and for ensuring that the annual financial statements provide 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 company’s statutory 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 Section 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.

We exercise professional judgement and maintain professional scepticism throughout the audit. 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 controls.
- study the internal control system relevant for auditing the financial statements and relevant precautions and measures for auditing 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.
- evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- conclude on the appropriateness of the executive directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company’s ability to continue 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 and revise a certified auditor’s opinion issued if the statements or information/data concerned are inadequate. Our conclusions are based on the audit evidence 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, its conformity with applicable laws and the accuracy of the view the report affords of the company's business situation.
- conduct audits of the prospective information presented by the executive directors in the management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

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

Lübeck, 28 May 2024

BDO AG
Wirtschaftsprüfungsgesellschaft

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