SBS Friction A/S

Kuopiovej 11, 5700 Svendborg

CVR-nr. 19 75 19 37

Annual report 2023

Approved at the Company's annual general meeting on February 19 2024

Chairman of the generel meeting:

Rasmus Laasby Eshøj

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Rasmus Laasby Eshøj

Contents

Statement by Management

The Board of Directors and the Executive Board have today discussed and approved the annual report of SBS Friction A/S for the financial year 1 January – 31 December 2023.

The annual report has been prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2023 and of the results of its operations for the financial year 1 January – 31 December 2023.

Further, in our opinion, the Management's review gives a fair review of the development in the Company's operations and financial matters, the results for the year and the Company's financial position.

We recommend that the annual report is approved at the annual general meeting.

Svendborg, 6. February 2024
Executive Board:

Marco Moretti
CEO

Rasmus Laasby Eshøj

Hans Torben Madsen

Christel Munk Pedersen

Esben Juul Sørensen

Board of directors:

Andrea Paganessi
Chairman

Andrea Pazzi

Marco Moretti

Esben Juul Sørensen

Gitte Dehn Lansner

Independent auditor's report

To the shareholders of SBS Friction A/S

Opinion

We have audited the financial statements of SBS Friction A/S for the financial year 01.01.2023 - 31.12.2023, which comprise the income statement, balance sheet, statement of changes in equity and notes, including a summary of significant accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the Entity's financial position at 31.12.2023 and of the results of its operations for the financial year 01.01.2023 - 31.12.2023 in accordance with the Danish Financial Statements Act.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of this auditor's report. We are independent of the Entity in accordance with the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (IESBA Code) and the additional ethical requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act, and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Entity's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting inpreparing the financial statements, and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required todraw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures in the notes, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Statement on the Management commentary

Management is responsible for the management commentary.

Our opinion on the financial statements does not cover the management commentary, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the management commentary and, in doing so, consider whether the management commentary is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the management commentary provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the management commentary is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statements Act. We did not identify any material misstatement of the management commentary.

Odense, 6 February 2024

Deloitte
Statsautoriseret Revisionspartnerselskab
CVR No. 33963556

Heino Hyllested Tholsgaard
State Authorised Public Accountant
Identification No (MNE) mne34511

Management's review

Company information

Name	SBS Friction A/S
Adress, postal code, city	Kuopiovej 11, 5700 Svendborg
CVR-no.	19 75 19 37
Founded	1st of November 1996
Hometown muncipality	Svendborg
Financial year	1. januar – 31. december
Board of Directors	Andrea Paganessi, chairman Andrea Pazzi Marco Moretti Esben Juul Sørensen Gitte Dehn Lansner
Management	Marco Moretti, CEO Rasmus Laasby Eshøj Hans Torben Madsen Christel Munk Pedersen Esben Juul Sørensen
Auditors	Deloitte Statsautoriseret Revisionspartnerselskab Tværkajen 5, 5000 Odense C, Danmark

Management's review

Financial highlights

DKKm	2023	2022	2021	2020[1]	2019[1]
Key figures					
Gross profit/loss	86.081	78.935	84.275	78.011	66.129
Operating profit/loss	4.624	782	9.450	19.825	13124
Net financials	-4.286	-2.443	-4.817	-3.067	-3.822
Profit/loss for the year	548	-926	3.888	13.371	4.603
Investments in tangible assets	34.293	28.396	7.026	34.459	6.760
Total assets	206.929	193.171	197.427	156.357	137.984
Equity	57.974	57.426	58.352	54.464	30.336
Financial ratios					
Liquidity ratio	49,2%%	183,0%	240,6%	55,2%	62,5%
Solvency ratio	28,0%%	29,7%	29,6%	34,8%	22,0%
Average number of full-time employees	102	99	93	84	83

1) Comparative figures have not been restated to reflect the effect of the implementation of IFRS 16.

The financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios". For terms and definitions, please see the accounting policies.

Management's review

Report

Principal activities
SBS Friction develops, manufactures and distributes brake parts and friction technology for motorcycles, scooters and ATV/UTVs as well as for several specialized areas that apply friction technology.

The product portfolio includes self-developed and self-produced brake pads as well as goods for resale in the form of brake discs, brake shoes, and clutches.

SBS Friction controls the main part of the value chain and oversees its own development based on considerable know-how within friction technology, own production, sales, marketing and a product range which lives up to the highest performance requirements, safety and general industry quality properties.
All functions, including packaging and distribution are in Svendborg (Denmark).

SBS Friction operates globally on the free spare parts market and within the OEM market. The OEM market also includes manufacturers of wind turbines and other niches which use friction technology.

On the free aftermarket, SBS Friction is market leader within brake pads in Europe where the largest markets are Italy, Germany, France and Spain. In addition, the company has sales in Asia, North and South America. Most of the volume in the aftermarket is sold under Corporate own brands (SBS, AP Racing and Brembo) and the rest as private label products.

On the OEM market for motorcycles, scooters, UTVs, ATVs and other vehicles, SBS Friction serves vehicle manufacturers through brake system specialists, mainly intercompany.

Market Conditions

SBS Friction's primary market is the free aftermarket for spare parts for motorcycles.

It is a niche market where SBS Friction is one of the few large and global suppliers, which sells to a network of specialized distributors. Consolidation of distributors takes place in a way that currently does not disrupt the value chain. Moreover, SBS Friction is the absolute market leader in Europe with a product portfolio which cannot easily be substituted due to the technological nature and the customer and brand specific approvals held by SBS. Finally, the SBS brand is a premium brand, and that position is supported by increased digitalization using Website, Newsletters & SoMe platforms as well as substantial sponsorships in international motorcycle racing.

Intercompany Aftermarket business with Brembo brand has increased the integration with the Italian organization, implementing centralized product marketing services such as range management and cataloguing.
The logistic activity for Brembo branded products is instead separated and based in Italy, to serve directly customers and provide dedicated support.

Management's review

Report

Development in activities and financial matters

Profit/loss for the year

Gross profit was realized at DKK 86 million and operating profit was realized at DKK 4,6 million.
Result before taxes was DKK0,3 million compared to the expected DKK 7-13 million.

OE sales have been growing in line with budget expectation. The majority is intercompany sales to Brembo (Italy and India) and J-Juan (Spain and China). The turnover represented 23% of total sales (31% of volumes).

Independent Aftermarket segment in year 2023 has been influenced by the reduced volumes suffered in Private Label channel where customers didn't reach budgeted level. The branded business was at budget or close to but total was affected.

During 2023 the installation of new production machines and the subsequent implementation of Better Brakes product line, substituting previous technology, was not in line with expected timing and volumes to be substituted resulted in a lower amount. Consequently production cost has been higher than budget (despite an improvement compared to previous year) and it contributed to lower results compared to expectations.

Innovation

Better Brakes pads line is the brand name of our innovative line of organic and sintered brake pads that are designed and manufactured avoiding completely the use of hazardous materials such as Copper, Nickel and Antimuonium in the friction material. The benefit in the environment and in the production site is also associated to a better performance and comfort.
Despite the volumes in the year were lower due to capacity constraints in the first half, the product has been well received in the market and the efficiency in terms of lower production cost per unit is confirmed.

Strategic development

The strategy remains to focus on the full integration with the BU business being a key element of the mission of becoming a solution provider for our customers.
In the OEM market the plan is confirmed. Already in 2023 volumes budgeted were reached and the technical approval roadmap of our pads by key target customers is respected both with Brembo and J-Juan for the years to come.
In Aftermarket the synergies with Brembo, brand positioning, distribution network and range, associated with the expected positive acceptance in the market of our new pads line will allow us to consolidate our dominant position in Europe and generate growth opportunity in American Aftermarket and in Asia Pacific.
To support both OEM and AM business, the investment plan is confirmed to expand capacity and upgrade production processes.
On top of existing ISO9001 Quality certification, in 2023 the company achieved Environmental certification ISO14001; Quality certification IATF16949 and Energy certification ISO50001 will be completed within first quarter of 2024.

Management's review

Report

General risks

The company is not exposed to any particular operating or market risks.

Foreign exchange risks

The company's purchases and sales are primarily made in EUR or Danish kroner. The company is not deliberately involved in any speculative foreign exchange transactions.

Interest rate risks

The company does not hedge interest rate risks and is therefore exposed to movement in the interests rate level in respect of both short and long-term rates.

Uncertainty relating to recognition and measurement

For further information reference is made notes 8 and 11.

Outlook 2024

For 2024 the company expects continued increasing revenue from OE sales. Result before taxes is expected in the range DKK 2-5 million.

Events after the balance sheet date

No events have occurred after the end of the financial year that could significant alter the company's financial position.

Financial statements 1 January – 31 December

Income statement

Note	DKK'000	2023	2022
2	**Gross profit**	**86.081**	**78.935**
3	Staff costs	-65.684	-61.337
	Depreciation, amortisation and impairment losses	-15.773	-16.816
	Operating profit/loss	**4.624**	**782**
4	Financial income	93	25
5	Financial expenses	-4.379	-2.468
	Profit/loss before tax	**338**	**-1.661**
6	Tax for the year	210	735
7	**Profit/loss for the year**	**548**	**-926**

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2023	2022
	ASSETS		
	Non-current assets		
8	**Intangible assets**		
	Acquired intangible assets	3.507	5.470
	Goodwill	0	0
	Completed development projects	14.434	15.493
		17.941	20.963
	Material assets		
9	Land and building	33.022	30.960
9	Plant and machinery	53.094	33.573
9	Fixtures and fittings, tools and equipment	1.945	1.096
	Assets under construction	10.080	7.459
10	Leased assets	411	452
		98.552	73.630
	Other Non-current assets		
11	Tax assets	19.887	21.409
	Total non-current assets	**136.380**	**116.002**
	Current assets		
	Inventories		
	Raw materials and consumables	17.650	17.681
	Work in progress	784	1.231
	Finished goods and goods for resale	20.547	28.534
		38.981	47.446
	Receivables		
	Trade receivables	7.923	8.316
	Receivables from Group entities	11.930	13.524
	Other receivables	4.122	3.306
	Corporate tax receivables	915	0
12	Prepayments	541	738
		25.431	25.884
	Liquid funds	6.137	3.839
	Total current assets	**70.549**	**77.169**
	TOTAL ASSETS	**206.929**	**193.171**

Financial statements 1 January – 31 December

Balance sheet

Note	DKK'000	2023	2022
	EQUITY AND LIABILITIES		
	Equity		
13	Share capital	12.001	12.001
	Reserve for development costs	11.259	12.085
	Retained earnings	34.714	33.340
	Total equity	**57.974**	**57.426**
	Liabilities		
	Non-current liabilities		
14	Other payables	4.405	4.264
	Payables to group entities	0	86.028
15	Deferred income	918	3.122
14	Lease commitments	162	163
	Total non-current liabilities	5.485	93.577
	Current liabilities		
	Payable to group entities	111.225	9.811
14	Lease commitments	255	292
	Trade payables	20.186	19.814
15	Deferred income	1.090	0
	Other payables	10.714	12.251
	Total current liabilities	143.470	42.168
	Total liabilities	**148.955**	**135.745**
	TOTAL EQUITY AND LIABILITIES	**206.929**	**193.171**

1 Accounting policies
2 Speciel items
17 Contractual obligations and contingencies, etc.
18 Mortgages and collateral
19 Related parties

Financial statements 1 January – 31 December

Statement of changes in equity

DKK'000	Share capital	Reserve for development costs	Retained earnings	Total
Equity at 1 January 2023	12.001	12.085	33.340	57.426
Transfer to reserves	0	-826	826	0
Profit/loss for the year	0	0	548	548
Equity at 31 December 2023	**12.001**	**11.259**	**34.714**	**57.974**

Financial statements 1 January – 31 December

Cash flow statement

Note	DKK'000	2023	2022
	Operating profit	**4.624**	**782**
	Reversed depreciations charges etc.	15.509	16.746
	Interests received	93	25
	Interests paid	-4.379	-2.468
16	Changes in working capital	20.934	888
	Income taxes received/paid	817	-6.294
	Cash from operating activities	**37.598**	**9.679**
	Acquisition of intangible assets	-4.160	-3.713
	Acquisition of property, plant and equipment	-34.293	-28.553
	Disposal of property, plant and equipment	264	104
	Cashflow from investing activities	**-38.189**	**-32.162**
	Loan financing: Changes in loans from group entities	3.260	-4.074
	Loan financing: Lease commitments	-371	-232
	Cashflow from financing activities	**2.889**	**-4.306**
	Net cash flows	**2.298**	**-26.789**
	Cash and cash equivalents at January 1	3.839	30.628
	Cash and cash equivalents at December 31	**6.137**	**3.839**

Financial statements 1 January – 31 December

Notes

1 **Accounting policies**

The annual report of SBS Friction A/S for 2023 has been prepared in accordance with the provisions applying to medium-sized reporting class C entities under the Danish Financial Statements Act.

The annual report is prepared consistently with the accounting principles applied last year.

Foreign currency translation

On initial recognition, transactions denominated in foreign currencies are translated at the exchange rates at the transaction date. Foreign exchange differences arising between the exchange rate at the transaction date and the rate at the date of payment are recognized in the income statement as financial income or financial expenses.

Receivables, payables and other monetary items denominated in foreign currencies are translated at the exchange rates at the balance sheet date. The difference between the exchange rates at the balance sheet date and the date at which the receivable or payable arose or was recognized in the latest financial statements is recognized in the income statement as financial income or financial expenses.

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including depreciation, amortisation, impairment losses and write-downs, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company, and the value of such assets can be measured reliably. Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company, and the value of such liabilities can be measured reliably. On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described for each item below.

On recognition and measurement, account is taken of foreseeable losses and risks arising before the date at which the annual report is presented and proving or disproving matters arising on or before the balance sheet date.

Notes

1 **Accounting policies (continued)**

Income statement

Gross profit

Gross profit is the sum of revenues, work on own account recognized in assets, cost of goods sold, other operating income and other external expenses with reference to the Danish Financial Statement Act (32).

Own work capitalized

Own work capitalized comprises staff costs and other costs incurred in the financial year and recognized in cost for proprietary intangible assets and property, plant and equipment.

Revenue

The Company has chosen IFRS 15 as interpretation for revenue recognition.

Revenue from the sales of finished goods and goods for resale is recognized when control of the goods has transferred, being when the goods are delivered to the customer, the customer has full discretion over the channel and price to sell the goods, and there is no unfulfilled obligation that could affect the customers acceptance of the goods. Delivery occurs when the goods have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the goods in accordance with the sales contract, the acceptance provisions have lapsed, or the company has objective evidence that all criteria for acceptance have been satisfied

Cost of raw materials and consumables

Costs of raw materials and consumables comprise raw materials and consumables used for the year as well as any changes in inventories, including any inventory wastage.

Write-downs of inventories of raw materials and consumables are also recognised under raw materials and consumables to the extent that these do not exceed normal write-downs.
Other operating income/expenses

Other operating income

Other operating income comprises items secondary to the Company's activities, including gains and losses on disposal of property, plant and equipment and government compensations related to Covid-19.

Other external expenses

Other external costs comprises costs relating to the Company's primary activity that are incurring during the year, including costs for distribution, sales and marketing, administration, premises and bad debts, etc.

Staff costs

Staff costs comprise wages and salaries, including holiday pay and pensions as well as expenses regarding social security etc. for the Company's staff. Compensations received from authorities are recognized in gross profit.

Notes

1 **Accounting policies (continued)**

Depreciation and amortisation of intangible and tangible assets and leases

Intangible assets

Depreciation is based on cost less any residual value and provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Acquired intangible assets	3-10 years
Goodwill	3-10 years
Completed development projects	5 years

The depreciation period for intangible assets exceeds 5 years based on assessment of the products long-term market potential.

Tangible assets

Depreciation is based on cost less any residual value and provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Land and buildings	10-33 years
Plant and machinery	3-10 years
Fixtures and fittings, tools and equipment	3-10 years

Lease

Leased assets are depreciated on a straight line basis over the expected lease term, which is:

Cars	1-5 years
Building	10 years
Plant and machinery	3-5 years

Financial income and expenses

Financial income and expenses comprise interest income and expense, charges in respect of finance leases, gains and losses on securities, payables and transactions denominated in foreign currencies, amortisation of financial assets and liabilities as well as surcharges and refunds under the on-account tax scheme, etc.

Interest expense and other borrowing costs to finance intangible assets and property, plant and equipment and which relate to the production period are not recognized in cost of the assets.

Tax for the year

Tax for the year comprises current income tax and changes in deferred tax for the year due to changes in the tax rate. The tax expense relating to the profit/loss for the year is recognized in the income statement, and the tax expense relating to amounts recognized directly in equity is recognized directly in equity.

Notes

1 **Accounting policies (continued)**

Balance sheet

Intangible assets

Acquired intangible assets comprise knowhow, trademarks and software are measured at cost less accumulated depreciation and impairment losses.

Goodwill is measured at cost less accumulated depreciation and impairment losses.

Development costs comprise expenses, salaries and depreciation and amortisation directly attributable to the Company's development activities.

Development projects that are clearly defined and identifiable and where the technical feasibility, sufficient resources and a potential future market or development potential are evidenced, and where the Company intends to produce, market or use the project, are recognized as intangible assets provided that the cost can be measured reliably and that there is sufficient assurance that future earnings can cover production costs, selling costs, administrative expenses and development costs. Other development costs are recognized in the income statement as incurred.

Development costs recognized in the balance sheet are measured at cost on initial recognition and subsequently at cost less accumulated amortisation and impairment losses.

On completion of a development project, development costs are depreciated on a straight-line basis over the estimated useful life, which is usually 5 years and no longer than 10 years..

Gains and losses on the disposal of development projects, patents and licences are determined as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognized in the income statement as other operating income or other operating expenses, respectively.

Tangible assets

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses. The basis of depreciation is cost less any expected residual value at the end of the useful life.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers, wages and salaries as well as borrowing costs relating to specific and general borrowing directly attributable to the construction of the individual asset.

Individual components of property, plant and equipment that have different useful lives are accounted for as separate items, which are depreciated separately.

Depreciation is based on the residual value of the asset and is reduced by impairment losses, if any. The depreciation period and the residual value are determined at the acquisition date and are reassessed annually. Where the residual value exceeds the carrying amount of the asset, no further depreciation charges are recognized.

In case of changes in the depreciation period or the residual value, the effect on the depreciation charges is recognized prospectively as a change in accounting estimates.

Gains and losses on the disposal of items of property, plant and equipment are calculated as the difference between the selling price less selling costs and the carrying amount at the date of disposal. Gains and losses are recognized in the income statement as other operating income or other operating expenses, respectively.

Notes

1 Accounting policies (continued)

Leases

The Company has chosen IFRS 16 as interpretation for classification and recognition of leases.

On initial recognition, leases for assets with a term of more than 12 months, that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) are measured in the balance sheet at the lower of fair value and the present value of future lease payments. In calculating the present value, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently accounted for as the Company's other assets.

The capitalized residual lease commitment is recognized in the balance sheet as a liability, and the interest element of the lease payment is recognized in the income statement over the term of the lease.

Impairment of non-current assets

The carrying amount of intangible assets, property, plant and equipment and equity investments in subsidiaries and associates is tested annually for indication of impairment other than the decrease in value reflected by amortisation/depreciation.

Impairment tests are conducted on individual assets or cash-generating units when there is indication of impairment. Write-down is made to the lower of the carrying amount and the recoverable amount.

The recoverable amount is the higher of the net selling price of an asset and its value in use. The value in use is calculated as the present value of the expected net cash flows from the use of the asset or the group of assets.

Previously recognized impairment losses are reversed when the reason for recognition no longer exists. Impairment losses on goodwill are not reversed.

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realizable value is lower than cost, inventories are written down to this lower value.

Goods for resale and raw materials and consumables are measured at cost, comprising purchase price plus delivery costs.

Finished goods and work in progress are measured at cost, comprising the cost of raw materials, consumables, direct wages and salaries as well as indirect production overheads. Production overheads comprise costs of material and labour as well as maintenance of and depreciation on production machinery, buildings and equipment as well as costs relating to plant administration and management. Borrowing costs are not recognized in the cost.

The net realizable value of inventories is determined as the selling price less costs of completion and costs incurred to effect the sale, taking into account marketability, obsolescence and developments in the expected selling price.

Notes

1 Accounting policies (continued)

Receivables

The company has chosen IAS 39 as interpretation. Receivables are measured at amortised cost.

Write-down for bad and doubtful debts is made when there is objective evidence that a receivable has been impaired. If there is objective evidence that an individual receivable has been impaired, an impairment loss is recognized on an individual basis.

Impairment losses are calculated as the difference between the carrying amount of the receivables and the present value of the expected cash flows, including the realisable value of any collateral received. The effective interest rate of the individual receivable or portfolio is used as discount rate.

The company is part in the group Cash Pool arrangement. Receivables from the Cash Pool arrangement is included in Receivables from group entities.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity

Reserve for development costs

The reserve for development costs comprises recognized development costs. The reserve cannot be used to distribute dividend or cover losses. The reserve will be reduced or dissolved if the recognized development costs are amortized or are no longer part of the Company's operations by a transfer directly to the distributable reserves under equity.

Dividend

Proposed dividend is recognized as a liability at the date when it is adopted at the annual general meeting (declaration date). Dividend expected to be distributed for the year is presented as a separate line item in equity.

Corporation tax and deferred tax

Current tax payables and receivables are recognized in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on taxable income in previous years and tax paid on account.

Joint taxation contributions payable and receivable are recognized in the balance sheet as corporation tax receivable or corporation tax payable.

Deferred tax is measured using the balance sheet liability method on all temporary differences between the carrying amount and the tax base of assets and liabilities. Where alternative tax rules can be applied to determine the tax base, deferred tax is measured based on Management's intended use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax value of tax loss carryforwards, are recognized at the expected value of their utilization; either as a set-off against tax on future income or as a set-off against deferred tax liabilities in the same legal tax entity and jurisdiction.

Deferred tax is measured according to the tax rules and at the tax rates applicable in the respective countries at the balance sheet date when the deferred tax is expected to crystallise as current tax.

Notes

1 **Accounting policies (continued)**

Deferred income

Deferred income comprises received for recognition in subsequent years. Deferred income is measured at cost.

Liabilities other than provisions

Financial liabilities are recognized at the date of borrowing at the proceeds received less transaction costs paid. On subsequent recognition, financial liabilities are measured at amortized cost, corresponding to the capitalized value, using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognized in the income statement over the term of the loan.

Other liabilities are measured at net realisable value.

Key figures

The financial ratios are calculated in accordance with the Danish Finance Society's guidelines on the calculation of financial ratios, "Recommendations and Financial Ratios".

Explanations of financial ratios:

Liquidity ratio	$\frac{\text{Current assets x 100}}{\text{Current liabilities}}$
Solvency ratio	$\frac{\text{Equity at year end x 100}}{\text{Total assets at year end}}$

Cash flow statement

The cash flow statement shows cash flows from operating, investing and financing activities, and cash and cash equivalents at the beginning and the end of the financial year.

Cash flows from operating activities are presented using the indirect method and calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes, and financial income, financial expenses and income tax paid.

Cash flows from investing activities comprise payments in connection with acquisition and divestment of enterprises, activities and fixed asset investments, and purchase, development, improvement and sale, etc. of intangible assets and property, plant and equipment.

Cash flows from financing activities comprise changes in the size or composition of the contributed capital and related costs, and the raising of loans, repayments of interest-bearing debt, including lease liabilities, purchase of treasury shares and payment of dividend.

Cash and cash equivalents comprise cash and short-term securities with an insignificant price risk.

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DKK'000	2023	2022

2 Special items

Other income and other expenses are included in Gross Profit.

	2023	2022
Capitalization	4.051	3.210
Reimbursement of salaries	272	384
Gain / loss from sales of fixed assets	264	71
	4.587	**3.665**

3 Staff costs

	2023	2022
Wages and Salaries other employees	59.741	56.065
Pensions	4.572	3.859
Other social security expenses	1.371	1.413
	65.684	**61.337**
Average number of employees	102	99
Remueration of management		
Executive baord	9.646	9.540

4 Financial income

	2023	2022
Interest received from group enterprises	1	10
Other financial income	92	15
	93	**25**

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DKK'000		2023	2022
5	**Financial expenses**		
	Interest paid to group entities	3.640	2.113
	Other financial expenses	298	58
	Interest on lease	14	6
	Exchange loss	427	291
		4.379	**2.468**
6	**Tax on profit/loss of the year**		
	Adjustment on deferred tax for previous years	0	-148
	Tax for the year	915	0
	Adjustment on deferred tax for the year	-705	883
		210	**735**

7 **Distribution of profit/loss**

DKK'000	2023	2022
Transferred to equity reserves	548	-926
	548	**-926**

8 **Intangible assets**

DKK'000	Acquired intangible assets	Goodwill	Completed development projects	Total
Cost at 1 January 2023	36.804	5.627	42.126	84.557
Additions for the year	0	0	4.160	4.160
Cost at 31 December 2023	36.804	5.627	46.286	88.717
Amortisations at 1 January 2023	31.334	5.627	26.633	63.594
Amortizations	1.963	0	5.219	7.182
Amortisations at 31 December 2023	33.297	5.627	31.852	70.776
Carrying amount at 31 December 2023	**3.507**	**0**	**14.434**	**17.941**

Current, not completed development projects t.DKK 2.949 is included in the completed development projects.

Completed development projects

Completed development projects include development and test of new friction products. Completed development projects are amortized over 5 years.

The companys contribution margin on the sale of Frictions products is increased as a result of this development.

Management has high expectations of the use of Frictions products and has not identified any indication of impairment in relation to the carrying amount of the products.

Notes

9 Tangible assets

DKK'000	Land and building	Plant and machinery	Fixtures and fittings, tools and equip-ment	Assets under construction	Total
Cost at 1 January 2023	33.053	190.043	7.147	7.549	237.792
Additions for the year	3.100	22.718	1.370	7.105	34.293
Transferred	0	4.574	0	-4.574	0
Disposals for the year	0	-401	0	0	-401
Cost at 31 December 2023	36.153	216.934	8.517	10.080	271.684
Depreciations at 1 January 2023	2.093	156.470	6.051	0	164.614
Depreciations	1.038	7.771	521	0	9.330
Reversed depreciations of disposals	0	-401	0	0	-401
Depreciations at 31 December 2023	3.131	163.840	6.572	0	173.543
Carrying amount at 31 December 2023	**33.022**	**53.094**	**1.945**	**10.080**	**98.141**

10 Leases

DKK'000	Company cars	Total
Cost at 1 January 2023	1.158	1.158
Additions for the year	333	333
Disposals for the year	-255	-255
Cost at 31 December 2023	1.236	1.236
Depreciations at 1 January 2023	706	706
Depreciations	374	374
Reversed depreciations of disposals	-255	-255
Depreciations at 31 December 2023	825	825
Carrying amount at 31 December 2023	**411**	**411**

Lease liabilities

Maturity before 1 year	255	255
Maturity before 5 years	162	162
Maturity after 5 years	0	0
Lease liabilities at 31 December 2023	**417**	**417**

Notes

11 Deferred tax asset

DKK'000	2023	2022
Deferred tax at 1. januar	21.409	20.674
Deferred tax adjustment for the year	-705	883
Deferred tax adjustment previous years	-817	-148
Deferred tax at 31 December 2023	**19.887**	**21.409**

Deferred tax relates to:		
Intangible assets	436	1.836
Tangible assets	14.169	13.344
Tax losses	5.282	6.229
Deferred tax at 31 December 2023	**19.887**	**21.409**

The deferred tax assets are recognized on the basis of expectations to the result of the coming years based on the company's 5 years plan in which the group entities are expected to substitute the sourcing of brake pads for the OE segmet from current suppliers to SBS Friction A/S. As a result of this SBS Friction A/S's sales for the OE segment is expected to increase with approx. DKK 130-140 million over the next 5 years.

During 2022 and 2023 a massive investment plan was launched to increase the company's production capacity based on the 5 years plan.

The tax assets are expected utilized within the next 5 years.

12 Prepayments

Prepayments comprise of prepaid software-licenses, subscriptions and insurance premiums.

13 Share capital

Movements in the share capital during the last 5 years can be specified as following:

DKK'000	2023	2022	2021	2020	2019
Share capital at 1 January	12.001	12.001	12.001	12.000	12.000
Additions	0	0	0	1	0
Share capital at 31 December	**12.001**	**12.001**	**12.001**	**12.001**	**12.000**

Notes

14 Financial liabilities

DKK'000	Total liabilities at 31/12 2023	Repayment first year	Outstanding debt after 5 years
Other payables	4.405	0	4.405
Lease commitments	417	255	0
Total financial liabilities	**4.822**	**255**	**4.405**

15 Deferred income

Deferred income consists of subsidies received in connection with development assets.

16 Changes in working capital

Changes in inventories	8.465	-6.373
Changes in receivables and prepayments	1.368	-1.123
Changes in trade payables and other payables	11.101	8.384
	20.934	**888**

17 Contractual obligations and contingencies, etc.

Operating lease commitments

The Company has no operating leases, that are not recognized in the balance sheet.

Contractual obligations

The Company has signed contracts for delivery of production machinery in 2024 for total DKK 9,2 million.

18 Mortgages and collateral

The company has no mortgages and collaterals.

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19 Related parties

SBS Friction A/S' related parties comprise the following:

Control

Brembo S.p.a., Bergamo, Italy owns 60% of the share capital and 40% is owned by Brembo Brake India, which is 100% owned by Brembo S.p.a.

SBS Friction A/S is part of the Brembo Group, domiciled in Bergamo, Italy and listed on the Italian stock exchange. The consolidated financial statements of Brembo Group can be obtained on the webpage http://www.brembo.com.

Related party transactions

SBS Friction A/S was engaged in the below related party transactions.

DKK'000	2023	2022
Sale of goods to group entities	82.867	66.878
Sale of services to group entities	860	2.312
Purchase of goods from group entities	401	1.021
Purchase of services from group entities	5.388	3.322
Interest received	1	10
Interest paid	3.642	2.113
Receivables	11.930	13.524
Payables long term	0	86.028
Payables short term	111.225	9.811