Annual Report 2021

Financial year 1 January – 31 December 2021

Date / Name of chairman of the meeting:
21 June 2022

Contents

Statement by the Board of directors and the Executive board

The Board of Directors and the Executive Board have today discussed and approved the annual report for 2021 of HOTTINGER BRÜEL & KJÆR A/S.

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

It is our opinion that the financial statements give a true and fair view of the Company's financial position at 31 December 2021 and of the results of the Company's operations for the financial year 1 January – 31 December 2021.

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

We recommend that the annual report should be approved at the annual general meeting.

Virum, 21 June 2022

Executive Board:

Steen Pinnerup Director	Morten Kirkelund Director

Board of Directors:

Benjamin John Bryson Chairman	Thomas Rosenkilde Anderson Vice chairman	
Steen Pinnerup	Morten Kirkelund	
Lone Gundelach Kjeldsen (Employee representative)	Tommy Markvard Larsen (Employee representative)	Martin Qvist Olsen (Employee representative)

Independent auditor's report

To the shareholder of HOTTINGER BRÜEL & KJÆR A/S

Opinion

We have audited the financial statements of Hottinger Brüel & Kjær A/S for the financial year 01.01.2021 - 31.12.2021, which comprise the income statement, balance sheet, statement of changes in equity, cash flow statement 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 31.12.2021 and of the results of its operations and cash flows for the financial year 01.01.2021 - 31.12.2021 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 responsibility 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 includesour 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 in preparing 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 to draw 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.

Copenhagen, 21 June 2022

DELOITTE
Statsautoriseret Revisionspartnerselskab
CVR-No: 33963556

Tim Kjær-Hansen
State-Authorised Public Accountant
MNE No 23295

Jens Serup
State-Authorised Public Accountant
MNE No 45825

Management's review

Company details

Hottinger Brüel & Kjær A/S
Teknikerbyen 28, Søllerød
2830 Virum

Telephone:	+45 77 41 20 00
Web-site:	www.hbkworld.com
E-mail:	info@hbkworld.com
Registration No:	23 95 84 14
Established:	3 September 1957
Registered office:	Rudersdal

Executive Board

Steen Pinnerup, director
Morten Kirkelund, director

Board of Directors

Benjamin John Bryson (chairman)
Thomas Rosenkilde Anderson (vice chairman)
Steen Pinnerup
Morten Kirkelund
Lone Gundelach Kjeldsen (employee representative)
Tommy Markvard Larsen (employee representative)
Martin Qvist Olsen (employee representative)

Auditor

DELOITTE Statsautoriseret Revisionspartnerselskab
Weidekampsgade 6
2300 Copenhagen S

Annual general meeting

The Annual General Meeting will be held on 21 June 2022 at the company's address.

Management's review

Financial highlights

DKK million	2021	2020	2019	2018	2017
Key figures					
Revenue	674.3	778.8	820.9	895.9	939.9
Operating profit	44.8	18.8	61.4	119.0	125.9
Profit/loss from financial items	-9.1	-2.3	-6.3	-3.9	-5.7
Profit for the year	**26.3**	**10.9**	**42.5**	**89.6**	**93.4**
Intangible assets	16.2	18.8	24.3	21.4	14.3
Tangible assets	73.7	94.6	120.1	120.0	126.7
Right of use assets	228.9	-	-	-	-
Addition tangible assets	87.1	8.2	8.9	12.6	5.0
Current assets	465.0	379.8	352.8	345.0	434.8
Total assets	**783.9**	**493.2**	**497.2**	**486.4**	**575.8**
Share capital	102.0	102.0	102.0	102.0	102.0
Equity	**313.2**	**284.3**	**279.4**	**234.7**	**288.9**
Provisions	9.3	14.2	18.7	22.7	16.5
Non-current liabilities other than provisions	229.8	26.2	-	-	-
Current liabilities other than provisions	231.3	168.5	199.1	229.0	270.4
Financial ratios					
Operating margin	7%	1%	7 %	13 %	13 %
Equity ratio	40%	58%	56 %	48 %	50 %
Return on equity	9%	4%	17 %	34 %	31 %
Average number of employees	**425**	**432**	**439**	**449**	**447**

The financial ratios have been prepared in accordance with the Danish Society of Financial Analysts' guidelines on the calculation of financial ratios "Recommendations and Financial Ratios". The financial ratios have been calculated as follows:

Operating margin $$\frac{\text{Operating profit x 100}}{\text{Revenue}}$$

Equity ratio $$\frac{\text{Equity, at year end x 100}}{\text{Total equity \& liabilities at year end}}$$

Return on equity $$\frac{\text{Profit/loss for the year x 100}}{\text{Average equity}}$$

Management's review

Operating review

Principal HOTTINGER BRÜEL & KJÆR activities

HOTTINGER BRÜEL & KJÆR develops and markets products and services relating a wide range of products within Test & Measurement segment. The company undertakes the developing, manufacturing and marketing directly from the factory in Virum, Denmark. Sales takes place through a network of affiliated sales companies and distributors.

HOTTINGER BRÜEL & KJÆR is managed together with other affiliated companies as part of the global HOTTINGER BRÜEL & KJÆR business unit in the Spectris group. The legal ownership of other affiliated companies lies elsewhere within Spectris plc.

Development in activities and financial Position

Total sales decreased from DKK 778.8 million in 2020 to DKK 674.3 million in 2021, corresponding to a decrease of 13%. The financial year 2020 included intercompany sale of goods procured from the production site in the UK, Hottinger Bruel & Kjaer UK Ltd. The sale of these goods via HOTTINGER BRÜEL & KJÆR was historically in place for administrative efficiency reasons. Following UKs EU exit ('Brexit') by 1. January 2021, the sales by Hottinger Bruel & Kjaer UK Ltd to HOTTINGER BRÜEL & KJÆR is no longer feasible, as the intercompany transactions, following 'Brexit', are not covered by the EU free movement of goods, requiring the administrative and custom duties efforts associated with exports. Consequently, the products are now sold directly to sales companies from Hottinger Bruel & Kjaer UK Ltd, causing the decrease in sales for HOTTINGER BRÜEL & KJÆR. As the relative share of own produced products has increased on account of the change in product mix, the gross profit has increased by 11% compared to 2020.

The Danish production, engineering and office site of HOTTINGER BRÜEL & KJÆR relocated from Copenhagen, Nærum to Copenhagen, Virum during the second half of 2021. On the back of favourable market conditions the expected sales price for the former production site in Nærum was reassessed during year end proceedings 2021. Consequently, the impairment amounting to DKK 22.6 million recognised in 2020 was reversed in 2021.

Revenue did not meet last year´s expectation of improved sales performance due to the change in business activities. Nevertheless, profit before tax improved as expected, mainly driven by strong gross profit and the reversal of impairment of the facilities in Nærum. Profit before tax for the year was DKK 35.7 million compared to DKK 16.5 million in 2020.

Equity amounts to DKK 313.2 million at the end of the year. The company's financial position remains strong with an equity ratio at 40%. The implementation of IFRS 16 had a negative impact on the equity ratio of 18 percentage points as DKK 236 million has been capitalized as lease liabilities.

The 2021 result is considered to be satisfactory.

Management's review

Research and development activities

Our research and development activities continue to focus on improving our solutions to further enhance our competitiveness in the core market segments. Our research team is involved in several international, cooperative research projects with major customers, universities, and other partners.

Risk management

General risks

The company is continuously looking for ways to minimise its business risks, through several activities, addressing commercial, operational, and financial risks.

Financial risks

Currency

HOTTINGER BRÜEL & KJÆR is exposed to currency risks via our exposures in various markets, primarily USD and JPY denominated risks. Currency risks are mitigated by using a combination of natural hedges and financial instruments. HOTTINGER BRÜEL & KJÆR uses Forward Exchange Contracts and the exposure for the company is with Spectris plc while market exposure lies with Spectris plc.

Interest

The cash and debt positions of the company are exposed to global interest rate fluctuations. Group cash pooling structures are reflecting market rates.

Credit

Receivables are mainly trade receivables with customers worldwide and other group companies. HOTTINGER BRÜEL & KJÆR adopts a conservative approach to credit control. Customers are credit rated continuously to mitigate debtor risks.

Intellectual capital

All HOTTINGER BRÜEL & KJÆR employees are important contributors to the business – from developing a HOTTINGER BRÜEL & KJÆR product to implementing solutions for our customers. We focus on maintaining and developing our employees to ensure continuity in our product development.

Management's review

Environmental issues

HOTTINGER BRÜEL & KJÆR recognizes the principle of sustainable development, and has consequently established an Environmental Management System with the purpose of

- managing all significant environmental aspects of activities, products, and services, and thereby controlling the environmental impact from our activities and preventing pollution

- continuously improving the overall environmental performance and encouraging stakeholders to do the same

- creating sustainable value for our customers by helping them solve their sound and vibration challenges

In this manner the HOTTINGER BRÜEL & KJÆR has committed itself to environmental responsibility to satisfy all the legal commitments in addition to the terms of our customers. The company has an ISO 14001 accreditation.

Outlook

As consequence of adverse supply chain conditions experienced since second half 2021, since February exacerbated by the war in Ukraine and resulting sanctions, management expects a result for 2022 in line with 2021. The outlook is based on management´s current estimates. The estimates are influenced by the volatile market conditions and geopolitical situation that may further accelerate or decelerate geopolitical head winds. Management is continuously monitoring the markets and business development to take appropriate measures against any adverse impacts on employees, customers, and financial performance.

Management's review

Corporate social responsibility

With regard to 99a of the Danish Financial Statements Act, Hottinger Brüel & Kjær is acutely aware of our role as a member of society at a local as well as at a global level. Hottinger Brüel & Kjær therefore makes targeted efforts to ensure that our business operations and activities are developed in a financially, socially and environmentally responsible manner.

As a member of the Spectris group of companies, whose ultimate parent Spectris plc (www.spectris.com) is listed on the London Stock Exchange, Hottinger Brüel & Kjær follows the Corporate Social Responsibility related principles set out in the Spectris Code of Business Ethics (available for download at: https://www.spectris.com/sustainability/ethics-and-culture).

In order to monitor and reduce the environmental impact of Hottinger Brüel & Kjær's operations, an Environmental Management System has been established. Further information is available at: https://www.bksv.com/en/about/quality-environment/environmental-management.

HBK DKs statutory CSR statement is a part of the Spectris sustainability strategy as described in section "Sustainability Report" of the Spectris plc Annual Reports and accounts 2021, pages 54 ff. The report is available for download at: https://www.spectris.com/investors/results-reports-presentations/year/2021. Further information on the groups' Corporate Social Responsibility standards and activities including e.g. Anti-slavery statement is available on the Spectris webpage (see details at: https://www.spectris.com/sustainability).

Goals and policies for the underrepresented gender

Hottinger Brüel & Kjær believes that members of the Board of Directors and other management levels should be chosen for their overall competences. The Board of Directors also recognizes and promotes the benefits of a diverse management group in respect of experience, style, culture, education, international background, and gender.

It is the company's policy to attract, develop and maintain the most qualified candidates for all open positions including management positions. Women and men are invited equally to
apply for all relevant positions and take responsibility for their own learning and development.

When recruiting externally for management positions it is a contractual requirement that the agency does everything which can reasonably be considered within their power to provide a diverse shortlist of qualified candidates. A similar requirement and procedure is implemented for internal recruitment.
Internal recruiters as well as suppliers are required track and document their efforts to deliver diversity in the candidate pool and final selection.

To support the specific diversity target of a more even gender distribution, it is a requirement that the underrepresented gender is represented in the final candidate pool and interview stage.

Management's review

The proportion of the underrepresented gender for the Board of Directors was 0% (0 out of 4 members) in 2021 as the Board of Directors remained unchanged.

Employee representatives are not included in the standard ratio calculation. The company is working diligently to improve the rate.

HOTTINGER BRÜEL & KJÆR's objective is to increase the proportion of the underrepresented gender on all management levels. Managers are defined as persons with direct reports and comprise all levels from the executive management to the lowest organizational level. In recent years the development has been as follows:

Year	2017	2018	2019	2020	2021	2022 (target)
Pct.	28%	22%	27%	23%	28%	30%

The company remains committed to increase its underrepresented gender proportions and is increasing its focus on D&I specifically. The company's target of 30% are provisionally moved to 2023, but pending recalibration based impact from global reorganizing of the company workforce and operating model.

Data Ethics

HOTTINGER BRÜEL & KJÆR focuses on the physical and digital security to protect information and ensure data privacy. In the light of 99d of the Danish Financial Statements Act and the developments regarding the proposals by the EU Commission for a joint approach on data ethics across the European Union, HOTTINGER BRÜEL & KJÆR currently progresses in deriving a joint data ethic policy in conjunction with other entities jointly forming the "HBK Platform", which are domiciled in other EU member states.

Branches

The company has a branch in Sweden, responsible for sales in the Swedish market. Figures related to the Swedish branch are included in the annual report.

Events after the balance sheet date

HOTTINGER BRÜEL & KJÆR A/S has entered into an agreement to sell the building in Nærum, which will lead to a realised gain on sale of the building in 2022. The building will be in the buyer´s custody 1 April 2022.

Income statement

DKK'000	Note	2021	2020
Revenue	2	674,302	778,835
Production costs		-234,420	-381,599
Gross profit		439,882	397,236
Other operating income	3	538	7,548
Other external costs		-141,774	-107,575
Staff costs	4	-257,062	-239,612
Depreciations and impairments	5, 6, 7	3,204	-38,782
Operating profit		44,788	18,815
Financial expenses	8	-9,086	-2,280
Profit for the year before tax		35,702	16,535
Tax on profit for the year	9	-9,445	-5,651
Profit for the year	10	26,257	10,884

Balance sheet

DKK'000	Note	2021	2020
ASSETS			
Fixed assets			
Intangible assets	5		
Software		3,288	4,054
Research & Development assets		12,931	14,737
		16,219	18,791
Property, plant and equipment	6		
Land and buildings		-	73,016
Production plant and machinery		10,559	12,812
Fixtures and fittings, tools and equipment		17,500	8,771
Property, plant and equipment under construction		9,075	54
Leasehold improvements		36,548	-
		73,682	94,653
Right of use assets	7	228,923	-
Total fixed assets		318,824	94,653
Current assets			
Inventories			
Raw materials and consumables		62,122	42,932
Goods in progress		9,669	13,317
Finished goods and consumables		53,023	50,296
Asset held for sale	6	91,144	-
		215,958	106,545
Receivables			
Trade receivables		71,776	71,304
Receivables from affiliates		143,107	175,137
Other receivables		22,431	19,008
Prepayments	11	11,769	7,793
		249,083	273,242
Total current assets		465,041	379,787
TOTAL ASSETS		783,865	493,231

Balance sheet

DKK'000	Note	2021	2020
EQUITY AND LIABILITIES			
Equity			
Share capital	12	102,000	102,000
Reserve for development expenditure		10,086	11,495
Fair value reserve		-403	-3,091
Retained earnings		181,507	158,909
Ordinary dividends proposed		20,000	15,000
Total equity		313,190	284,313
Provisions			
Deferred tax	13	4,912	8,201
Other provisions	14	4,470	5,970
Total provisions		9,382	14,171
Non-current liabilities other than provisions			
Lease liabilities	7	229,808	-
Other payables		-	26,215
Total non-current liabilities other than provisions		229,808	26,215
Current liabilities other than provisions			
Lease liabilities	7	6,171	-
Amount owned to affiliates		32,825	29,940
Prepayments from customers		35,792	17,320
Trade payables		61,303	28,539
Other payables		83,312	77,034
Deferred income	15	12,082	15,699
Total current liabilities other than provisions		231,485	168,532
Total liabilities other than provisions		461,293	194,747
TOTAL EQUITY AND LIABILITIES		783,865	493,231

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Equity statement

	Contributed capital DKK`000	Reserve for development expenditure DKK`000	Fair value reserve DKK`000	Retained earnings DKK`000	Proposed dividend DKK`000	Total DKK`000
Equity at 1st January	**102,000**	**11,495**	**-3,091**	**158,909**	**15,000**	**284,313**
Effect of change in accounting policies	-	-	-	-2	-	-2
Value adjustment of forward exchange contracts	-	-	3,446	-	-	3,446
Tax on equity transactions	-	-	-758	-	-	-758
Currency adjustment of branch	-	-	-	-66	-	-66
Value adjustment HBM DK acquisition	-	-	-	-	-	-
Transfer	-	-1,409	-	16,409	-15,000	-
Profit/loss for the year	-	-	-	6,257	20,000	26,257
Equity end of year	**102,000**	**10,086**	**-403**	**181,507**	**20,000**	**313,190**

The Board of Directors recommends the General Assembly to approve dividends for the year of DKK 20 million to be distributed.

Notes

1 Accounting policies

The Annual Report of HOTTINGER BRÜEL & KJÆR for 2021 has been prepared in accordance with the provisions applying to class C enterprises (large) under the Danish Financial Statements Act. The accounting policies applied to these financial statements are consistent with those applied last year.

Pursuant to Section 86 (4) of the Financial Statements Act, the Company has not prepared a cash flow statement. Further pursuant to Section 96 (3) of the Financial Statement Act, the company has not disclosed fee for auditors appointed at the general meeting.

Change in accounting policies

1 January 2021 HOTTINGER BRÜEL & KJÆR A/S has changed its accounting policies with regard to recognition and measurement of leases and revenue. The changes in accounting policies are implemented in order to align with the internal reporting principles to Spectris Inc, according to which IFRS 16 applies for leases and IFRS 15 applies for revenue.

The implementation has not resulted in any significant impact on profit & loss, assets and liabilities as of 1 January 2021.

During 2021 HOTTINGER BRÜEL & KJÆR A/S has entered an agreement to rent new premises, which has a significant impact on the Annual report for 2021. Aligning accounting policies with Group accounting policies prevents significant deviations between internal reporting and Annual reports.

Apart from the areas mentioned above, the annual report has been presented applying the accounting policies consistent with last year.

Consolidated financial statements

With reference to Act section 112 of the Danish Financial Statements and to the consolidated financial statements of Spectris Plc, the Company has not prepared consolidated financial statements.

Cash flow statement

With reference to section 86 (4) of the Danish Financial Statements Act and to the cash flow statement included in the consolidated financial statements of Spectris Plc, the Company has not prepared a cash flow statement.

Significant accounting judgments and estimates

In 2021 HOTTINGER BRÜEL & KJÆR implemented IFRS 16. In accounting for lease contracts, various judgments are applied in determining right-of-use assets and lease liabilities. Judgments include assessment of lease periods, utilisation of extension options and applicable discount rates.

Notes

1 Accounting policies (continued)

Recognition and measurement

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the Company and the value of the asset can be reliably measured.

Liabilities are recognised in the balance sheet when an outflow of economic benefits is probable and when value of the liability can be reliably measured.

On initial recognition, assets and liabilities are measured at cost. Subsequently, assets and liabilities are measured as described below for each individual item.

Certain financial assets and liabilities are measured at amortised cost implying the recognition of a constant effective interest rate to maturity. Amortised cost is calculated as initial cost with deduction of any principal repayments and addition or deduction of the cumulative amortisation of any difference between cost and nominal amount.

In recognising and measuring assets and liabilities, any gains, losses and risks occurring prior to the presentation of the Annual Report that evidence conditions existing at the balance sheet date are taken into account.

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities measured at fair value or amortised cost. Equally, costs incurred to generate the year's earnings are recognised, including depreciation, amortisation, impairment and provisions as well as reversals as a result of changes in accounting estimates of amounts which were previously recognised in the income statement.

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 rates at the transaction date and at the date of payment are recognised in the income statement as financial income or expenses.

Receivables and 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 at the date at which the receivable or payable arose or was recognised in the latest financial statements is recognised in the income statement as financial income or expenses.

Fixed assets acquired in foreign currencies are translated at the exchange rates at the transaction date.

Derivative financial instruments

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently measured at fair value.

Notes

1 Accounting policies (continued)

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of the fair value of a recognised asset or liability are recognised in the income statement together with changes in the fair value of the hedged asset or liability.

Changes in the fair value of derivative financial instruments designated as and qualifying for recognition as a hedge of future assets or liabilities are recognised in other receivables or other payables and in equity. If the hedged forecast transaction results in the recognition of assets or liabilities, amounts previously recognised in equity are transferred to the cost of the asset or liability, respectively. If the hedged forecast transaction results in income or expenses, amounts previously deferred in equity are transferred to the income statement in the period in which the hedged item affects profit or loss.

For derivative financial instruments that do not qualify for hedge accounting, changes in fair value are recognised in the income statement.

Income statement

Revenue

In 2021 revenue is measured based on the fair value of the consideration specified in a contract with a customer, net of returns and discounts, and excludes amounts collected on behalf of third parties, value added tax and other sales-related taxes. HOTTINGER BRÜEL & KJÆR recognises revenue when it transfers control of a product or service to a customer.

Revenue from the provision of services, including ongoing support, servicing and maintenance, is recognised in line with the delivery of the service, either at a point in time or, for some ongoing services, over time. Revenue from the sale of goods, where the goods are not required to be installed, is recognised at a point in time when control of the goods has transferred. This may occur, depending on the individual customer terms, when the product is transferred to a freight carrier, or when the customer has received the product.

Simple installations are those which the customer perceives as a separate performance obligation within the overall contract to deliver goods. Revenue is recognised for simple installations separately from the delivery of goods, and only at a point in time when the installation has occurred. Occasionally, the initial contract covers both the supply of goods and ongoing support, servicing and maintenance. For such contracts revenue is allocated across each of the individual components in line with their relative price and value of the performance obligation and each element is accounted for as described above. Payment is normally due at the point that the performance obligation is completed. For some of the segment’s business the customer may make partial payment in advance. Such payments are recognised as contract liabilities until the performance obligation has been satisfied. Sales-related warranties associated with the products cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications

Revenue is recognised in accordance with the over-time recognition principle following the satisfaction of various milestones as the performance obligation is fulfilled towards the customer.

Notes

1 Accounting policies (continued)

In 2020 revenue from the sale of goods for resale and finished goods was recognised in the income statement provided that delivery and transfer of risk to the buyer had taken place before year end and that the income could be reliably measured and was expected to be received. The net revenue from sale of service contracts was recognised in the income statement over the term of the individual contracts.

Construction contracts were recognised as revenue by reference to the stage of completion. Accordingly, revenue corresponds to the selling price of work performed during the year (the percentage of completion method). When the income from a construction contract cannot be estimated reliably, revenue was recognized only corresponding to the costs incurred to the extent that it was probable that they would be recovered.

Revenue is measured at fair value net of VAT, taxes and discounts in relation to the sale.

Production costs

Production costs comprise costs incurred in generating the revenue for the year. Such costs include direct and indirect costs for raw materials and consumables, wages and salaries.

Other operating income and costs

Other operating income and costs comprise items of a nature secondary to that of the principal activities of the enterprises.

Other external costs

Other external costs comprise distribution costs and costs related to sales, sales campaigns, administration, office premises, operating leases, etc.

Staff costs

Staff costs comprise salaries and wages as well as social security contributions, pension contributions, etc for entity staff.

Financial income and expenses

Financial income and expenses comprise interest income and expense, 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.

Notes

1 Accounting policies (continued)

Tax on profit for the year

The parent company Spectris Denmark ApS is the administrative company for the joint taxation and consequently settles all corporation tax payments with the tax authorities.

The current Danish corporation tax is allocated by settlement of joint taxation contribution between the jointly taxed companies in proportion to their taxable income. In this relation, companies with tax loss carry forwards receive joint taxation contribution from companies that have used these losses to reduce their own taxable profits.

The tax expense relating to the profit/loss for the year is recognised in the income statement, and the tax expense relating to amounts directly recognised in equity is recognised directly in equity.

Balance sheet

Intangible fixed assets

Software

Software is measured at cost less accumulated depreciation and impairment losses. Software is depreciated on a straight-line basis over the expected useful life of 3 to 5 years.

Research and development

Self-funded research and development costs are capitalised when they meet certain criteria. These criteria include demonstration of technical feasibility, intent of completing a new asset and generation of probable future economic benefits.

R&D assets are measured at cost less accumulated depreciation and impairment losses and are depreciated on a straight-line basis over the expected useful life of 10 years.

In general gains and losses on the disposal of intangible assets 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 recognised in the income statement as other operating income or other operating costs, respectively.

Notes

1 Accounting policies (continued)

Tangible fixed assets

Property, plant and equipment

Land and buildings, plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation. Land is not depreciated.

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, and wages and salaries.

Depreciation is provided on a straight-line basis over the expected useful lives of the assets. The expected useful lives are as follows:

Buildings	40 years
Production plant and machinery	10 years
Fixtures and fittings, tools and equipment	3-10 years

Property, plant and equipment are written down to the recoverable amount if this is lower than the carrying amount.

Gains and losses on the disposal of property, plant and equipment are determined as the difference between the sales price less disposal costs and the carrying amount at the date of disposal. The gains or losses are recognised in the income statement as other external costs.

Leases

Leases financial year 2021

Whether a contract contains a lease is assessed at contract inception. For identified leases, a right-of-use asset and corresponding lease liability are recognised on the lease commencement date.

Upon initial recognition, the right-of-use asset is measured at a cost corresponding to the lease liability recognised, adjusted for any lease prepayments or directly related costs, including dismantling and restoration costs. The lease liability is measured at the present value of lease payments of the leasing period discounted using the interest rate implicit in the lease contract. In cases where the implicit interest rate cannot be determined, an appropriate incremental borrowing rate is used. In determining the lease period, extension options are only included if it is reasonably certain they will be utilised.

At subsequent measurement, the right-of-use asset is measured less accumulated depreciation and impairment losses and adjusted for any remeasurements of lease liability.

Notes

1 Accounting policies (continued)

Depreciation is carried out following the straightline method over the lease term or the useful life of the right-of-use asset, whichever is shortest. The lease liability is measured at amortised cost using the effective interest method and adjusted for any remeasurements or modifications made to the contract.

Extension options are only included in the lease term if extension of the lease is reasonably certain.

Right-of-use assets and lease liabilities are not recognized for low value lease assets or leases with a lease term of 12 months or less. These are recognized as an expense on a straight-line basis over the term of the lease. Any service elements separable from the lease contract are also accounted for following the same principle.

Land and building leases normally have a lease term of up to ten years whereas leases of cars normally have a lease term up to 3 years.

Leases financial year 2020

In the Annual report for 2020, leases for fixed assets that transfer substantially all the risks and rewards incident to ownership to the Company (finance leases) were recognised in the balance sheet at cost, corresponding to the lower of fair value and the net present value of future lease payments on initial recognition.

In calculating the net present value of future lease payments, the interest rate implicit in the lease or a rate that approximates this rate was used as the discount factor. Assets held under finance leases were depreciated as the Company's other fixed assets.

The capitalised residual obligation was recognised in the balance sheet as a liability and the interest element of the lease payments was recognised in the income statement over the term of the lease.

All other leases were treated as operating leases. Payments relating to operating and other leases were recognised in the income statement over the term of the lease. The Company's total liabilities relating to operating and other leases were disclosed under contingencies and securities, etc.

Assets held for sale

Land and buildings held for resale is stated at the lower of cost and net realisable value. Cost is assigned by specific identification and includes the cost of acquisition, and development and borrowing costs during development.

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

Notes

1 Accounting policies (continued)

Impairment of assets

The carrying amount of intangible assets, property, plant and equipment is subject to an annual test for indications of impairment other than the decrease in value reflected by depreciation.

Impairment tests are conducted on individual assets or groups of assets when there is an indication that they may be impaired. Write-down is made to the recoverable amount if this is lower than the carrying amount.

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

Inventories

Inventories are measured at cost in accordance with the FIFO method. Where the net realisable 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 and indirect production overheads. Indirect production overheads comprise indirect materials and wages and salaries as well as maintenance and depreciation of production machinery, buildings and equipment as well as factory administration and management. Borrowing costs are not recognised in cost.

The net realisable value of inventories is calculated as the sales amount less costs of completion and costs necessary to make the sale and is determined taking into account marketability, obsolescence and development in expected sales price.

Contract work in progress

Contract work in progress is measured at sales value of the work performed less progress billing and expected loss.

The sales value is recognised based on an evaluation of the completion rate at year end and the expected income earned from the individual contract. The completion rate is determined based on an individual evaluation of the work performed on each contract.

If it is expected that all costs on an individual contract will exceed the total income, the expected loss is recognised as a cost in the income statement when recognised. If the value of an individual contract cannot be measured reliably, the sales value is measured only as costs incurred to the extent that it is likely that they will be recovered.

Notes

1 Accounting policies (continued)

If the value of work performed on individual contracts is higher than the progress billing and expected loss, the value is recognised as trade receivables. If the value of work performed on individual contracts are below the expected sales value and loss, the value is recognised as a provision.

Pre-payments from customers are recognised as provisions.

Sales costs and costs incurred in securing contracts are recognised in the income statement when incurred.

Receivables

Receivables are measured at amortised cost.

Write-down is made for bad debt losses when there is objective evidence that a receivable has been impaired. If there is objective evidence that an individual receivable has been impaired, write-down is made on an individual basis.

Write-downs are calculated as the difference between the carrying amount and the present value of the expected cash flows, including the realisable value of any received collateral.

Prepayments

Prepayments comprise costs incurred concerning subsequent financial years.

Equity

Proposed dividends are recognised as a liability at the date when they are adopted at the annual general meeting (declaration date). The expected dividend payment for the year is disclosed as a separate item under equity.

An amount corresponding to development expenditure capitalised as intangible assets is transferred to “reserve for development expenditure” under equity. The reserve is reduced with amortisation of intangible assets and adjusted with a deferred tax rate of 22%.

Corporation tax and deferred tax

The joint taxation system means that the Company’s tax obligation is settled when payment to the administration company (Spectris Denmark ApS) are made.

Current tax payable and receivable is recognised in the balance sheet as tax computed on the taxable income for the year, adjusted for tax on the taxable income of prior years and for tax paid on account.

Notes

1 Accounting policies (continued)

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 different tax rules can be applied to

determine the tax base, deferred tax is measured based on Management's planned use of the asset or settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax loss carry forwards, are recognised at the expected value of their utilisation; 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 in accordance with the tax rules and at the tax rates applicable at the balance sheet date when the deferred tax is expected to crystallise as current tax. Change in deferred tax as a consequence of changed tax rate is recognised in the income statement.

Other provisions

Provisions comprise anticipated costs related to deferred tax and warranties. Provisions are recognised when, as a result of past events, the Company has a legal or a constructive obligation and it is probable that there may be an outflow of resources embodying economic benefits to settle the obligation.

Warranties comprise obligations to make good any defects within the warranty period. Provisions for warranties are measured and recognised based on past experience.

Notes

1 Accounting policies (continued)

Financial liabilities

Financial liabilities are recognised at the date of borrowing at the net proceeds received less transaction costs paid. In subsequent periods, the financial liabilities are recognised at amortised cost, corresponding to the capitalised value using the effective interest rate. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Financial liabilities also include the capitalised residual obligation on finance leases. Other liabilities are measured at net realisable value.

Deferred income

Deferred income comprises payments received from customers concerning income in subsequent years and prepaid rental for EMS Brüel & Kjær.

Notes

DKK'000	2021	2020

2 Revenue

	2021	2020
Domestic	28,260	27,716
Foreign	646,042	751,119
	674,302	778,835

With reference to section 96, 1 of the Danish Financial Statements Act the company does not disclose segment information. The disclosure of details about the company's performance of business areas is considered sensitive market information.

3 Other Operating Income

	2021	2020
Covid-19 subsidies received	-	7,222
Other operating income	538	326
	538	7,548

4 Staff costs

	2021	2020
Wages and salaries	277,063	253,159
Pensions	16,567	16,534
Social security costs	3,038	3,459
Other staff costs	3,850	6,553
	300,518	279,705
Wages related to the construction of plant and machinery and indirect production overheads on inventories	-43,456	-40,093
	257,062	239,612
Average number of employees	425	432

Notes

DKK'000

The Company has set up a bonus plan for executive employees. The value of the bonus plan is based on earnings in the HOTTINGER BRÜEL & KJÆR organisation. Further, the Company's Executive Board and a number of key employees are included in the incentive programme with Spectris Plc. in the UK, according to which share options in Spectris Plc. are issued based on the results for the last 3 years and the development in Spectris Plc.'s share price. In the financial year no share options has been exercised by the Executive Board under this programme. In 2020 no share options was excersied. Share options granted in 2021 amount to 2,209 thousand (2020: 1,696 thousand).

Staff costs comprise remuneration, pension, bonus plan and company car for the Executive Board totalling DKK 7,910 thousand (2020: DKK 6,213 thousand) and total remuneration for the Board of Directors of DKK 75 thousand (2020: DKK 75 thousand).

5 Intangible assets

	Software	R&D assets	Total
Cost at 1 January 2021	55,211	18,063	73,274
Additions	2,403	-	2,403
Disposals	-938	-	-938
Cost at 31 December 2021	56,676	18,063	74,739
Depreciation and impairment at 1 January 2021	51,157	3,326	54,483
Depreciation and impairment	2,395	1,806	4,201
Disposals	-164	-	-164
Depreciation and impairment at 31 December 2021	53,388	5,132	58,520
Carrying amount at 31 December 2021	3,288	12,931	16,219
Depreciation period	3-5 years	10 years	

The additions of DKK 2.4m mainly consist of three projects; HBK sales force project (DKK 1.7m), Firewalls (DKK 0.6m) and the ERP system (DKK 0.2m). All projects are vital to the digital journey of HBK and have demonstrated promising outcome. There are no indications triggering impairment considerations.

Notes

DKK'000

6 Property, plant and equipment

	Land and buildings	Production plant and machinery	Fixtures and fittings, tools and equipment	Property, plant and equipment under construction	Leasehold improve-ments	Total
Cost at 1 January 2021	188,928	62,684	23,256	63	-	274,931
Transfers	-187,139	-	-	-30,241	30,241	-187,139
Additions	-	855	12,731	66,773	6,726	87,085
Disposals	-1,789	-463	-51	-27,520	-	-29,823
Cost at 31 December 2021	-	63,076	35,936	9,075	36,967	145,054
Depreciation and impair-ment at 1 January 2021	115,912	49,872	14,485	9	-	180,278
Transfers	-95,995	-	-	-	-	-95,995
Depreciation	4,073	2,978	3,955	-	419	11,425
Reversal of impairment	-22,600	-	-	-	-	-22,600
Disposals	-1,390	-333	-4	-9	-	-1,736
Depreciation and impair-ment at 31 December 2021	-	52,517	18,436	-	18,436	71,372
Carrying amount at 31 December 2021	-	10,559	17,500	9,075	36,548	73,682
Depreciation period		10 years	3-10 years	-	20 years	

Land and buildings was impaired in 2020. The impairment of DKK 22,600 thousand has been reversed in 2021 as the expected recoverable amount has increased. The reversal of the impairment amouting to DKK 22,600 thousand is recognized under depreciations and impairments in the income statement.

As it is expected that the building in Nærum will be sold during 2022 the building in Virum is classified as asset helt for sale as of 31 December 2021. It is expected that the sale will lead to a significant realized gain.

Notes

DKK'000

7 Leases

Right of use assets

	Buildings	Cars	Total Right of use assets
Additions	232,628	65	232,693
Cost at 31 December 2021	232,628	65	232,693
Depreciation	3,726	44	3,770
Depreciation and impairment at 31 December 2021	3,726	44	3,770
Carrying amount at 31 December 2021	228,902	21	228,923
Depreciation period	20 years	1-2 years	

Lease Liabilities

	Buildings	Cars	TOTAL
Lease liabilities fall due as follows:			
Within 1 year	6,149	22	6,171
Between < 1 and > 5 years	29,443	-	29,443
More than 5 years	200,365	-	200,365
TOTAL	235,957	22	235,979

Notes

DKK'000		2021	2020
8	**Financial expenses**		
	Interest expenses, group companies	1,633	443
	Interest expenses, leases	3,351	-
	Interest expenses, other	156	9
	Exchange rate losses	3,532	1,828
	Other financial costs	414	-
		9,086	2,280
9	**Tax on profit for the year**		
	Joint taxation contribution	12,531	8,269
	Other current taxes	203	398
	Adjustment of tax relating to previous years	-205	1,814
	Deferred tax for the year	-3,084	-4,830
		9,445	5,651
	Specification of tax on profit for the year		
	Current tax/joint taxation contribution	12,734	10,525
	Deferred tax	-3,289	-4,874
		9,445	5,651
	Tax recognition		
	Tax on profit for the year	9,445	5,651
	Tax on equity movements	758	-962
		10,203	4,689
10	**Proposed distribution of profit**		
	Ordinary dividends proposed	20,000	15,000
	Retained earnings	6,257	-4,116
		26,257	10,884

Notes

DKK'000	2021	2020

11 Prepayments

	2021	2020
Prepaid software-licenses	10,179	7,497
Other	1,590	296
	11,769	7,793

12 Share capital

The share capital consists of 102,000 shares of DKK 1,000. All shares have the same voting rights. The share capital is unchanged in the last five financial years.

13 Deferred tax

	2021	2020
Deferred tax at 1 January	8,201	13,031
Adjustment for the year	-3,289	-4,830
Deferred tax at 31 December	4,912	8,201

Provision for deferred tax relate to:

	2021	2020
Intangible assets	3,568	3,242
Manufacturing equipment	-903	-1,376
Land and buldings	-3,720	6,111
Current assets	7,787	6,863
Provisions	-1,820	-6,639
Deferred tax at 31 December	4,912	8,201

Notes

DKK'000	2021	2020

14 Other provisions

Warranty provision at 31 December	4,470	5,970

The warranty provision covers expected costs to be incurred for products already sold and is expected to be used in full within one year.

15 Deferred income

Current		
Deferred income	12,083	13,333
Prepaid rental	-	979
	12,083	14,312
Non-current		
Prepaid rental	-	1,387
	-	1,387
Deferred income at 31 December	12,083	15,699

16 Contractual obligations, contingencies etc

Rent and lease obligations relating to operating leases falling due within five years total DKK 243 thousand in 2020. Due to implementation of new accounting policies lease liabilities are capitalised in 2021.

Obligations regarding guarantees made for customers amount to DKK 12,722 thousand (2020: DKK 16,346 thousand).

The company participates in the Danish joint taxation group alongside the Danish parent company and other Danish subsidiaries owned by Spectris Plc. The company is jointly but unlimited liable for all claims for Danish company taxes within the Danish joint taxation group.

Notes

DKK'000

17 Financial instruments

	2021			2020		
Currency	Period	Contract value	(Gain) and loss recognised in equity	Period	Contract value	(Gain) and loss recognised in equity
DKK/USD	0–12 months	50,213	1,514	0–12 months	50,165	5,116
DKK/JPY	0–12 months	37,759	-216	0–12 months	41,008	-531
GBP/DKK	0–12 months	33,590	-798	0–12 months	31,281	-639
		121,562	500		122,454	3,946

18 Related parties

Control

The ultimate parent company of the group:

Spectris plc.
Melbourne House
44-46 Aldwych, London, WC2B 4LL
England

www.spectris.com

Ownership

Principal shareholder:

Spectris Denmark ApS
Teknikerbyen 28, Søllerød
2830 Virum
Denmark

A copy of the consolidated financial statements of Spectris plc. can be obtained from HOTTINGER BRÜEL & KJÆR A/S, Teknikerbyen 28, Søllerød, 2830 Virum, Denmark.

HOTTINGER BRÜEL & KJÆR A/S and the principal shareholder are included in the 2021 consolidated financial statements of Spectris plc., who holds a controlling interest.

Notes

DKK’000

Transactions with related parties

	Related parties with control DKK’000	Other related parties DKK’000
Intercompany sales	-	366,938
Intercompany cost of goods sold	-450	15,353
IT & Management Recharges	-8,910	26,308
Employee & Other Recharge	-2.179	12.208
Interest	-1,708	-
Intercompany receiveables - net	-60,675	113,590

19 Subsequent events

HOTTINGER BRÜEL & KJÆR A/S has entered into an agreement to sell the building in Nærum, which will lead to a realised gain on sale of the building in 2022. The building will be in the buyer´s custody 1 April 2022.

As mentioned in the Management’s Review, the Company continues to monitor the impact on its business considering appropriate measures to mitigate financial risk.